The 2007 Comprehensive Spending Review: prospects and processes

Sixth Report of Session 2006–07

Report, together with formal minutes, oral and written evidence

Ordered by The House of Commons to be printed 14 June 2007
The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue & Customs and associated public bodies.

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) from Session 1997–98 onwards are available on the Internet at www.parliament.uk/parliamentary_committees/treasury_committee.
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Committee staff

The current staff of the Committee are Colin Lee (Clerk), Fiona McLean (Second Clerk and Clerk of the Sub-Committee), Adam Wales, Jon Young, Harry Marin and Anna Leach (Committee Specialists), Lis McCracken (Committee Assistant), Michelle Edney (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

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Summary

The context

We note that public spending is projected to rise in real terms during the period from 2008–09 to 2010–11 as a whole—the period covered by the Comprehensive Spending Review—at half the rate of growth provided for during the period covered by the four preceding Spending Reviews taken together. We note the crucial role of forecasts of Annually Managed Expenditure for the period up to 2010–11 in determining the total amount of resources available for allocation among departments consistent with the Total Managed Expenditure ceilings established in the 2007 Budget. We examine the possible fiscal constraints and conclude that the Government’s freedom to increase public expenditure within Departmental Expenditure Limits beyond initial allocations while continuing to comply with its fiscal rules is likely to be more constrained than has been the case during much of the last decade.

The allocation of spending between departments

We recommend that the Government clarify its funding intentions with regard to the Home Office and the Ministry of Justice at an early stage and in advance of the final outcome of the Comprehensive Spending Review, stating clearly whether the new Departments will be bound by the combined totals agreed by the Home Office and the Department for Constitutional Affairs and providing a breakdown of the expenditure allocation between the Departments.

We note that, with the exception of the Department for Education and Skills, the early settlements have tended to be reached by departments which fared less well in the last Spending Review and so may have entered the current process with lower expectations. This suggests that many of the most challenging settlements lie ahead. Furthermore, all departments that have so far agreed settlements have done so at levels significantly below rates of growth provided for in the 2004 Spending Review settlements.

Embedding efficiency

We note that the Government has set out targets for a highly ambitious value for money programme for the period covered by the Comprehensive Spending Review. We call for clarification on reporting requirements for that programme and for a clearer performance measurement framework, including a greater role for external audit of service quality than hitherto. We recommend that the Government ensure that a coherent framework for the verification and reporting of savings on a consistent basis is established.

Public Service Agreements, the national debate and the role of Parliament

We conclude that the Government has been too timid in taking forward the national debate on the Comprehensive Spending Review to which it committed itself as long ago as
March 2006. We make recommendations designed to enhance public involvement and to encourage a dialogue between the Government and select committees of the House of Commons about Public Service Agreements, Departmental Strategic Objectives and the Government’s emerging views on those past objectives which have been achieved and those supporting programmes from which spending is potentially available for reallocation.
1 Introduction

1. Decisions on the allocation of public money to particular departments and to priority areas for public spending are central to the political process. The 2007 Comprehensive Spending Review is of pivotal importance as the first overall allocation process for public spending since the last General Election—and quite possibly the last such review before the next General Election. This year’s Review differs from previous Spending Reviews since 1998 in its scope, conduct and fiscal context. The period of operation of the new public spending regime introduced in 1998 has broadly coincided with a period of sustained, marked growth in public expenditure in real terms. The period up to 2010–11 will see much more constraint on public spending overall, with some departments facing substantial real terms reductions in spending. The new spending system has proved worthwhile up till now, but is about to face its greatest test.

2. Our main purposes in this Report are:

- to set the 2007 Comprehensive Spending Review in context, particularly in relation to past Spending Reviews and the fiscal prospects for the period up to 2010–11;

- to analyse what information is already available about the shape of the forthcoming spending settlement, including the role of efficiency objectives and the performance management framework; and

- to make proposals about the continuing debate up to the announcement of the final outcome of the Review, including the role of the House of Commons in that debate, and about the reporting requirements for the Comprehensive Spending Review and beyond.

3. We announced our intention to conduct an inquiry into the Comprehensive Spending Review: emerging issues in July 2006 and invited written evidence. We subsequently extended the period for the submission of evidence. All written evidence received is published with this Report. We took oral evidence from the Rt Hon Stephen Timms MP, Chief Secretary to the Treasury, together with HM Treasury officials, on 30 January 2007. We are most grateful to all those who gave evidence, and to Professor David Heald of Sheffield University and Professor Colin Talbot of Manchester Business School for their specialist advice.
2 The evolution of the 2007 Spending Review

The new planning process

4. From the late 1960s until 1998, Government spending was subject to annual limits arising from an annual process, latterly known as the Public Expenditure Survey. In June 1998, the Government announced a new regime for planning and controlling public expenditure.1 A new aggregate for spending plans was introduced, Total Managed Expenditure, with two components—Departmental Expenditure Limits and Annually Managed Expenditure. In relation to expenditure within Departmental Expenditure Limits, departments were to be set “firm and realistic multi-year limits”, intended “to provide greater certainty and flexibility for long-term planning and management”.2 Other spending within Total Managed Expenditure, that could not reasonably be given firm multi-year limits—such as social security benefits, locally-financed expenditure and government debt interest payments—was to be known as Annually Managed Expenditure and to be subject to regular review outside the context of Spending Reviews.3 In respect of Departmental Expenditure Limits, three year plans up to 2001–02 were set out in the 1998 Comprehensive Spending Review. Three year limits were subsequently reviewed and set in Spending Reviews in 2000, 2002 and 2004, under a system of a “three year planning cycle reviewed every two years”.4

The decision to conduct the 2007 Comprehensive Spending Review

5. Had the pattern established since 1998 been continued, the next Spending Review following that in 2004 would have taken place in 2006. However, in July 2005, on the occasion of his first appearance before this Committee in the present Parliament, the Chancellor of the Exchequer, the Rt Hon Gordon Brown MP, announced that there would be a Comprehensive Spending Review in 2007 rather than a Spending Review in 2006. The 2007 Comprehensive Spending Review would establish expenditure totals within Departmental Expenditure Limits for 2008–09, 2009–10 and 2010–11; departmental allocations for 2007–08 would be held to the totals already announced as a result of the 2004 Spending Review.5

6. The characterisation of the 2007 review as “Comprehensive” harked back to the initial Spending Review of 1998. Like that Review, the process concluding in 2007 was intended

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3 Ibid, p 117
5 HC Deb, 19 July 2005, cols 54–56WS; Treasury Committee, Oral and Written evidence, G8 and other international issues, HC (2005–06) 399–i, Q 1
to consider spending from a zero base. The Government subsequently spelt out what this meant:

The aim of the zero-based reviews now underway is to renew each department’s baseline expenditure to reflect changing priorities a decade on from the first CSR. Whereas past Spending Reviews have traditionally focused on allocating incremental increases in expenditure, the process of setting new long-term objectives in the CSR provides an important opportunity—with many past objectives achieved and supporting programmes and spending potentially available for reallocation—for a more fundamental review of the balance and pattern of expenditure within and across departments.

The Government clarified its approach in a document focused on value for money issues published in July 2006 and in a further document designed to promote discussion on the long-term issues published in November 2006.

**The timing of the outcome of the Review**

7. When we took evidence from the Chief Secretary to the Treasury in January 2007, the precise timing of the announcement of the final outcome of the Review remained unclear. He implied that it would not be later than October:

> Clearly what is needed is for departments to have the details in good time for the start of the financial year 2008–09, and we will make sure this is done … It needs really to be done by October in order that departments have the details they need for putting in place their arrangements for the new financial year.

However, he emphasised that July remained a possibility, and subsequently stated that “we will set out in the summer what we think the appropriate level for health funding in the CSR years is going to be”.

8. In the 2007 Budget, the Chancellor of the Exchequer announced that the final public expenditure allocations arising from the Comprehensive Spending Review would be published in the “autumn”. Although Treasury officials declined to make a formal commitment to the specific month, they said that “in reality that will mean that we will have to do it by the end of October”.

9. In previous Parliaments, our predecessors have expressed concern about the inadequate notice for the date of Spending Review announcements. For example, notice of the 2004

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6 HC Deb, 19 July 2005, cols 54-56WS
7 HM Treasury, Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review, July 2006, Cm 6889 (hereafter Releasing the resources), para 3.14, p 24
8 HM Treasury, Long-term opportunities and challenges for the UK: analysis for the 2007 Comprehensive Spending Review, November 2006 (hereafter Long-term opportunities and challenges)
9 Qq 9–10
10 Q 13
11 Q 55
12 HC Deb, 21 March 2007, col 817
Spending Review on Monday 12 July was not given until Tuesday 29 June. The decision to announce the outcome of the 2007 Comprehensive Spending Review in the autumn—and almost certainly in October—offers potential benefits to the House of Commons. An announcement in mid-July is not conducive to timely and effective parliamentary scrutiny. However, the benefits of an autumn announcement will be reduced if inadequate notice is given of the date of the announcement. We recommend that a final date for the announcement of the outcome of the 2007 Comprehensive Spending Review be set and made public before the Summer Recess. We recommend that the outcome itself be announced when Parliament is sitting and not during a recess.

10. Similar considerations apply to any debate in the House of Commons on the outcome of the Review. Spending Reviews have generally been followed by debates in the House of Commons on public expenditure. In 2004, the debate was held in the same week as the announcement of the outcome itself. We recommend that the Government hold a debate in Government time in the House of Commons on the outcome of the Comprehensive Spending Review. We further recommend that such a debate be held at least one month after the announcement itself, to allow time for initial scrutiny by this Committee and others to inform the subsequent debate.

The early settlements

11. The process for the current Comprehensive Spending Review has differed significantly from that for previous Spending Reviews in the extent to which individual departmental settlements have preceded the final spending announcement. There are precedents for such early announcements: the health and personal social services settlements in the 2002 Spending Review were announced in the 2002 Budget; similarly, the education settlement in the 2004 Spending Review was set out in the 2004 Budget. However, the current Spending Review round has seen an unprecedented range of early settlements, with some announced well in advance. The Home Office, the Department for Work and Pensions, HM Revenue & Customs, HM Treasury and the Cabinet Office agreed their budgets up to 2010–11 in time for announcements in the 2006 Budget. Further settlements for the Department for Constitutional Affairs, the Privy Council Office, National Savings & Investments, the Central Office of Information, the Food Standards Agency and the Government Actuary’s Department were set out in the 2006 Pre-Budget Report. The 2007 Budget saw further announcements relating to education spending, including spending limits for the Department for Education and Skills up to 2010–11, as well as early

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16 HC Deb, 14 July 2004, cols 1452–1514. The statement had been made on 12 July 2004.
18 Budget 2004, para 6.46 and Table 6.1, p 145
19 HC Deb, 22 March 2006, col 300; Budget 2006, Box 6.3, p 136
20 Pre-Budget Report 2006, Box 6.3, p 143
settlements for the Attorney General’s Departments and the Office of Fair Trading. Treasury officials told us in March 2007 that, taken together, the effect of the early settlements was to commit about 30% of total spending within Departmental Expenditure Limits.

12. The Chief Secretary to the Treasury set out the rationale for the early settlements in evidence to us in January 2007, using the example of the Home Office:

   The benefit for the Home Office of having that early settlement was a really quite unprecedented degree of certainty about the Department’s future funding for, in that case, a whole five-year period. Of course, that is a very valuable degree of confidence and certainty, allowing a kind of long-term planning which ought to be much more common in public services than it has been in the past, but the old year-by-year budget setting made that impossible. We have moved with three-year budget settlements decisively in the right direction. In this case the Home Office had a five year period of certainty. If you have got that level of certainty about funding then of course there is more you can do in terms of reform … The Home Secretary is certain about the funding he has available throughout the CSR period.

The Chief Secretary did not appear to rule out the possibility of further early settlements. Indeed, as we have already noted, he made a specific reference to a health settlement in the summer. This might reflect the particular challenges associated with the health spending settlement, or it might reflect a working assumption in January that the final outcome would be announced in the summer.

13. We consider both the financial terms of the early settlements and the possible implications for spending settlements of machinery of government changes at a later stage in this Report. We also comment later in this Report on the variations in the quality of information available about the early settlements at the time of their announcement.

21 Budget 2007, Table 6.3 and para 6.25, pp 157, 147
22 HC (2006–07) 389–II, Q 201
23 Qq 89–90
24 See paragraph 7.
25 See paragraphs 44–52.
26 See paragraph 105.
3 The context

The fiscal rules and the planning assumptions

14. The new regime for planning and controlling public expenditure was put in place in 1998 together with a new fiscal framework designed to ensure long-term sustainability in the public finances. The new Code for Fiscal Stability required the Government to state the rules through which fiscal policy would be operated. In the words of the Treasury,

rules, by their very nature, are intended to impose restrictions on behaviour. Fiscal rules must ensure that the public finances are managed prudently and maintained within sensible boundaries so that Government meets its spending commitments without jeopardising economic stability or running up an unfair bill for future generations.27

There are currently two fiscal rules stated as part of the fiscal policy framework:

- the golden rule: over the economic cycle, the Government will borrow only to invest, and not to fund current spending; and
- the sustainable investment rule: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.28

In the economic cycle which the Treasury currently considers began in 1997–98 and estimates will end in 2007, the sustainable investment rule is formulated as requiring that the Government maintain net debt below 40% of GDP in each and every year of the cycle. The Government has not yet responded definitively to our recommendation that it clarify whether the same formulation will be used in the economic cycle forecast to begin in 2007.29

15. There is an element of retrospection in the golden rule as currently formulated. Calculations about compliance with the rule depend upon a judgement about the start-date and end-date of an economic cycle. The Treasury reserves the right to alter its judgement about the start-date in the light of new economic data, as happened in July 2005 when the Treasury’s judgement on the start-date of the then current economic cycle was changed from a start in 1999–2000 to one in 1997–98.30 However, the fiscal rules are intended to be principally forward-looking in their operation. They thus depend to a substantial degree on forward projections of revenue receipts and of public expenditure—both current expenditure (in relation to the golden rule) and capital expenditure (in relation to the sustainable investment rule).

16. For the purposes of forecasting fiscal prospects in order to judge likely compliance with the fiscal rules, the Government makes a series of planning assumptions beyond the period

28 Pre-Budget Report 2005, para 2.7, p 15
29 HC (2006–07) 389–I, para 33
for which firm allocations have been made under the new planning and control regime. Thus, an assumption about levels of current spending in 2008–09 was included in the 2003 Pre-Budget Report, an assumption about current spending in 2009–10 was included in the 2004 Pre-Budget Report and an assumption about current spending in 2010–11 was first provided in the 2005 Pre-Budget Report. In each case, it was assumed that current public expenditure would grow by 1.9% a year in real terms. During our inquiry into the 2005 Pre-Budget Report, we asked the Chancellor of the Exchequer whether those projections represented the overall spending envelope for the Comprehensive Spending Review. He replied:

These have been our working assumptions for a number of years, but these are not necessarily the final figures.

At the time of the 2006 Budget, the assumption about the level of current spending in 2008–09 was changed from earlier assumptions, with the new assumption being that current spending in that year would grow by 2.0% in real terms.

The overall spending envelope and the capital/current divide

17. In the Budget, the Chancellor of the Exchequer announced the overall spending envelope for the period covered by the 2007 Comprehensive Spending Review. This followed the practice in 2002 and 2004, when overall Spending Review totals had been announced in the preceding Budget. He announced that the overall public spending envelope from 2008–09 to 2010–11 would be “consistent with the figures set out in the 2005 and 2006 Budgets and the most recent Pre-Budget Report”. It was thus announced that public sector current expenditure would rise by 2.0% in real terms in 2008–09 and by 1.9% in real terms in both 2009–10 and 2010–11, with the overall growth rate of current public spending being at an average of 1.9% a year in real terms over the period as a whole.

18. Totals for capital spending for the period covered by the Comprehensive Spending Review (and for 2011–12) had previously been announced in the 2006 Pre-Budget Report. The figures for current expenditure, unlike those for capital expenditure, were set out in terms of percentage increases rather than on the basis of actual figures. Columns 3 to 5 of Table 1 set out approximations for total current spending and for Total Managed Expenditure in 2008–09, 2009–10 and 2010–11 based on the latest information on public spending in 2007–08, the latest GDP deflator figures and the information available on capital spending.

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32 HC (2005–06) 739, Q 389
33 Budget 2006, para C.27, p 255
35 HC Deb, 21 March 2007, col 818
36 Budget 2007, paras C.26 and 6.47, pp 275, 152
37 HC Deb, 6 December 2006, col 313
The 2007 Comprehensive Spending Review: prospects and processes

Table 1: Capital public expenditure, and approximations of current public expenditure and of Total Managed Expenditure, 2007–08 to 2010–11, £ million

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<th></th>
<th>2007–08</th>
<th>2008–09</th>
<th>2009–10</th>
<th>2010–11</th>
<th>Average annual growth in real terms over CSR period (%)</th>
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<tr>
<td>Capital expenditure within TME</td>
<td>48,000(1)</td>
<td>51,000(1)</td>
<td>54,000(1)</td>
<td>57,000(1)</td>
<td>3.1</td>
</tr>
<tr>
<td>Approximation of current expenditure within TME</td>
<td>539,000(2)</td>
<td>564,000(3)</td>
<td>590,000(4)</td>
<td>618,000(5)</td>
<td>1.9</td>
</tr>
<tr>
<td>Approximation of Total Managed Expenditure</td>
<td>587,000(6)</td>
<td>615,000(7)</td>
<td>644,000(7)</td>
<td>675,000(7)</td>
<td>2.0</td>
</tr>
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Notes: (1) Figures in this row derived from HC Deb, 6 December 2006, col 313 and rounded to nearest £1 billion; (2) figure for 2007–08 derived from PESA 2007, Table 1.1, p 11, rounded to nearest £1 billion; (3) calculation based on GDP deflator of 2.70% (PESA 2007, Table F2, p 210) and real terms increase of 2.0% (Budget 2007, para C.26, p 275), rounded to nearest £1 billion; (4) calculation based on GDP deflator of 2.70% (PESA 2007, Table F2, p 210) and real terms increase of 1.9% (Budget 2007, para C.26, p 275), rounded to nearest £1 billion; (5) calculation based on GDP deflator of 2.70% (PESA 2007, Table F2, p 210) and real terms increase of 1.9% (Budget 2007, para C.26, p 275), rounded to nearest £1 billion; (6) figure for 2007–08 derived from PESA 2007, Table 1.1, p 11, rounded to nearest £1 billion; (7) figures derived from addition of figures in preceding rows of the same column.

The figures in Table 1 for Total Managed Expenditure, although an approximation, tally with the Government’s statement that total public spending will rise by an average of 2.0% a year in real terms in the period from 2008–09 to 2010–11.38

Overall spending in historical context

19. For the purposes of public finance projections, the Government has assumed that the economy will grow at 2½% in each of the years covered by the Comprehensive Spending Review—2008–09, 2009–10 and 2010–11.39 This means that public expenditure is projected to grow more slowly than the economy as a whole in each of those years, so that public spending would fall as a share of national income. This is in contrast with the outcome of the 1998, 2000, 2002 and 2004 Spending Reviews, each of which planned increases in public spending as a share of national income.40 This change of direction was, to some extent, anticipated in evidence to us by Mr Jon Cunliffe, Second Permanent Secretary, Macroeconomic Policy and International Finance, HM Treasury, in December 2005 when he said “clearly public spending cannot grow indefinitely faster than the rate of growth of the economy”.41

38 Budget 2007, para 6.47, p 152
39 Ibid, Table C3, p 275
40 Institute for Fiscal Studies, The IFS Green Budget, January 2007, p 124
41 HC (2005–06) 739, Q 206
20. In 1996–97, the last fiscal year before the present Government was first elected, total public spending stood at 40.8% of national income.\textsuperscript{42} This proportion fell to 37.1% of national income in 1999–2000 due to strong economic growth and reductions in public spending in real terms.\textsuperscript{43} Significant increases in public spending thereafter saw public spending rise steadily as a proportion of national income, and that share is projected to reach 42.5% in 2007–08.\textsuperscript{44} Based on the Treasury’s own assumptions, the Institute for Fiscal Studies has estimated that public spending will fall to 41.9% of national income in 2010–11.\textsuperscript{45} The projected level of spending in 2010–11 as a proportion of national income would be higher than that when the present Government come to power (40.8% in 1996–97), but lower than the average seen during either the period 1990–97 (42.9% of national income) or the period 1979–90 (44.9% of national income).\textsuperscript{46}

21. There are limitations to the value of assessing levels of public spending by reference to those levels as a proportion of national income, not least because figures are affected by changing levels of economic growth as well as trends in levels of public spending. The different phases of growth of public spending levels since 1997 are more readily apparent by examining public expenditure growth rates in real terms over the last decade. During the period from April 1997 to March 2008 as a whole, the average annual growth of Total Managed Expenditure is expected to be 3.2%, compared with a projected average growth rate of 2.0% a year in real terms in the period from 2008–09 to 2010–11. The figure for the period 1997–2008 as a whole, however, disguises several different phases of growth. Chart 1 shows the annual growth rate of Total Managed Expenditure in real terms in each year since 1997–98, using latest estimated outturn figures for 2006–07 and latest plans for 2007–08.

\textsuperscript{42} IFS Green Budget, p 126
\textsuperscript{43} Ibid, p 126
\textsuperscript{44} Ibid, pp 126–127
\textsuperscript{45} Ibid, p 127
\textsuperscript{46} Ibid, p 127
Total Managed Expenditure fell slightly in real terms in the period between April 1997 and March 1999 (by –0.2%), but rose or is planned to rise at an annual average rate of 4.0% between April 1999 and March 2008. The Chief Secretary to the Treasury readily acknowledged the significance of the change between the rate of growth in public spending in recent years and the rate of growth planned for the period from 2008–09 to 2010–11:

The CSR is going to be building on the longest sustained increase in public spending we have seen since World War Two … In the three years of the current Spending Review period, average annual real growth of Total Managed Expenditure is 3.5%. In the previous period it was 4.8% … Our spending projections in the Pre-Budget Report show average real growth of less than 2% in the CSR years. So, that is quite a significant change, a change of trajectory, that will present us with some challenges.

He subsequently referred to the Comprehensive Spending Review taking place in a “more constrained environment”. Public spending is projected to rise in real terms during the period covered by the current Comprehensive Spending Review as a whole at half the rate of growth provided for during the period covered by the four preceding Spending Reviews taken together.

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47 IFS Green Budget, Table 7.2, p 129
48 Q 2
49 Ibid
The division between Annually Managed Expenditure and Departmental Expenditure Limits

22. Overall levels of public spending within Total Managed Expenditure for the period from 2008–09 to 2010–11 have already been set. However, as we noted earlier, Total Managed Expenditure is divided between Departmental Expenditure Limits to be set for a three-year period in the Comprehensive Spending Review and Annually Managed Expenditure.\(^50\) Annually Managed Expenditure comprises those elements of public spending that the Government does not consider it appropriate to subject to firm multi-year limits at a departmental level. Annually Managed Expenditure includes expenditure on social security benefits and tax credits, locally-financed government expenditure, central government gross debt interest and net expenditure transfers to EU institutions. Forecasts of Annually Managed Expenditure are regularly revised outside the context of Spending Reviews. The division of Total Managed Expenditure for the period from 2008–09 to 2010–11 between Departmental Expenditure Limits and Annually Managed Expenditure will be set out when the final outcome of the Comprehensive Spending Review is announced.\(^51\)


**Chart 2: Annual real terms growth (%) in Total Annually Managed Expenditure and Total Departmental Expenditure Limits, 1999–2000 to 2007–08**

During the period since the new planning and control regime was introduced in 1998, Annually Managed Expenditure has generally grown more slowly than Total Managed

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\(^{50}\) See paragraph 4.

\(^{51}\) *Budget 2007*, para 6.47, p 152
Expenditure as a whole, principally due to the savings in social security expenditure from falling unemployment and the reductions in debt interest payments arising from improvements in the overall state of the public finances. This has had two beneficial effects on spending on programmes, both capital and current, within Departmental Expenditure Limits. First, it has meant that the Government could plan to increase spending within Departmental Expenditure Limits more rapidly than public spending as a whole: the late David Walton, in evidence to our predecessors in 2002, estimated on the basis of the 2004 Spending Review settlement that discretionary spending would rise by 5% a year in real terms over the lifetime of the last Parliament. Second, shortfalls in spending within Annually Managed Expenditure compared with forecasts have enabled additional resources to be assigned to programme expenditure in addition to those initially allocated in Spending Reviews.

24. When the concept of Annually Managed Expenditure was introduced, the Government stated that Annually Managed Expenditure would be “based on cautious estimates”. In 2004, the Chancellor of the Exchequer stressed that forecasts of Annually Managed Expenditure did not take account of external estimates of falling unemployment, so that any such falls would produce gains from reductions in Annually Managed Expenditure not accounted for in the forecast. During the period covered by the 2004 Spending Review, Annually Managed Expenditure was forecast at the time of that Spending Review to grow at 2.1% a year on average in real terms, compared with growth in Departmental Expenditure Limits of 4.2% a year in real terms over the same period. Table 2 compares initial forecasts for Annually Managed Expenditure set out in the earliest relevant Spending Review with the outturns up to 2005–06, the latest estimate of outturn for 2006–07 and the latest forecast for 2007–08.

52 Q 6
53 HC (2001–02) 1092-ii and ii, Qq 1, 38
54 Ibid, Q 50
56 HC (2003–04) 906–i and ii, Q 183
57 SR 2004, para 1.11, p 5
58 In each case, the initial Spending Review figure is the first forecast given, so that, for example, the figure for 2005–06 is taken from SR 2002, not SR 2004. The calculations take no account of definitional and classification changes relating to outturn data.
Table 2: Comparison of initial estimates of Annually Managed Expenditure in Spending Reviews with outturns, 1998–99 to 2007–08

<table>
<thead>
<tr>
<th>Year</th>
<th>(1) Initial Spending Review forecast of Annually Managed Expenditure £ million</th>
<th>(2) Outturn for Annually Managed Expenditure(1) £ million</th>
<th>Difference between (1) and (2) £ million</th>
<th>Difference between (1) and (2) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998–99</td>
<td>164,800</td>
<td>153,300</td>
<td>−11,500</td>
<td>−7.0</td>
</tr>
<tr>
<td>1999–2000</td>
<td>172,400</td>
<td>151,900</td>
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<td>−11.9</td>
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<td>2000–01</td>
<td>179,900</td>
<td>161,000</td>
<td>−18,900</td>
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<tr>
<td>2001–02</td>
<td>189,500</td>
<td>164,700</td>
<td>−24,800</td>
<td>−13.1</td>
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<tr>
<td>2002–03</td>
<td>186,200</td>
<td>179,500</td>
<td>−6,700</td>
<td>−3.6</td>
</tr>
<tr>
<td>2003–04</td>
<td>193,900</td>
<td>189,200</td>
<td>−4,700</td>
<td>−2.4</td>
</tr>
<tr>
<td>2004–05</td>
<td>201,700</td>
<td>207,700</td>
<td>6,000</td>
<td>3.0</td>
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<tr>
<td>2005–06</td>
<td>210,400</td>
<td>220,400</td>
<td>10,000</td>
<td>4.8</td>
</tr>
<tr>
<td>2006–07</td>
<td>227,800</td>
<td>230,700(2)</td>
<td>2,900</td>
<td>1.3</td>
</tr>
<tr>
<td>2007–08</td>
<td>239,500</td>
<td>242,600(3)</td>
<td>3,100</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Sources: CSR 1998, Table 2, p 16; SR 2000, Table 1.1, p 4; SR 2002, Table 1.1, p 6; SR 2004, Table 1.1, p 5; PESA 2004, Table 1.1, p 8 (for 1998–99 outturn); PESA 2005, Table 1.1, p 8 (for 1999–2000 outturn); PESA 2006, Table 1.1, p 11 (for 2000–01 outturn); PESA 2007, Table 1.1, p 11 (for all figures in column 3 from 2001–02 onwards)

Notes (1) All figures in column 3 rounded to nearest £100 million; (2) estimated outturn; (3) latest plans

25. Spending within Annually Managed Expenditure is, in the Treasury’s own words, “volatile and demand-led”. It is precisely for those reasons that the Government does not seek to subject such spending to firm multi-year planning at a departmental level. Estimates of Annually Managed Expenditure are subject to periodic review, and those shown in column 2 of Table 2 are the very earliest estimates for the financial years concerned. Nevertheless, from analysis of Chart 2 and Table 2, it is possible to draw the following conclusions:

- although the Government has stated that forecasts of Annually Managed Expenditure are “based on cautious estimates”, and the caution of the Government’s initial estimates is evident from outturns up to 2003–04, the initial estimates for 2004–05 and 2005–06 have been exceeded and the initial estimates for 2006–07 and 2007–08, may be exceeded;

59 SR 2004, para 1.10, p 5
60 CSR 1998, Annex B, p 117
• the average rate of growth of Annually Managed Expenditure in the period from 2005–06 to 2007–08 seems likely to exceed the Treasury’s initial forecasts for those years, although the proportionate difference seems likely to be smaller in 2006–07 and 2007–08 than in 2005–06; and

• the overall rate of growth for Total Managed Expenditure as a whole proposed in the spending envelope for the period from 2008–09 to 2010–11 is lower than the actual rate of growth of Annually Managed Expenditure so far during the years covered by the last two Spending Reviews.

26. The forecasts and assumptions made about the path of growth of Annually Managed Expenditure in the years from 2008–09 to 2010–11 need to take account both of the pattern of such spending in recent years and the factors which may affect levels of spending within Annually Managed Expenditure in coming years. Based on our work in the present Parliament to date, we can identify the following factors which have the potential to exert upward pressure on Annually Managed Expenditure during the spending period covered by the Comprehensive Spending Review:

• public sector net debt is projected to be higher than during the period covered by the 2004 Spending Review and rising in each year up to 2010–11, thus potentially increasing debt interest payments (subject to interest rates and financing arrangements);

• tax credits expenditure is forecast on the basis of existing take-up rates, while the Government is seeking ways to increase take-up rates, particularly the low take-up rate of 25% of entitlement in 2004–05 for Working Tax Credit among those entitled to claim it and childless;

• the Government is committed to halving the rate of child poverty by 2010–11, and the achievement of that commitment is likely to depend in part on increased expenditure on tax credits and child benefit; and

• net contributions to EU institutions (although a small proportion of total Annually Managed Expenditure) are projected to rise in real terms as a result of the financial agreement up to 2013 reached at the December 2005 European Council.

27. Such areas of Annually Managed Expenditure with a potential for increase may be offset by other areas with a potential for reductions. Also, forecasts for Annually Managed Expenditure traditionally include a substantial margin or contingency. In the case of the 2004 Spending Review, this margin was £2 billion in the first two years of the planning period and £3 billion in the third year. Such a margin might cover some of the less

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61 Budget 2007, Table C4, p 278
63 Ibid, paras 46–48
64 HC (2005–06) 994–I, para 61
65 SR 2004, Table A.1, p 182
predictable increases in expenditure. The Chief Secretary to the Treasury was optimistic about the overall prospects for Annually Managed Expenditure:

Looking forward, I am hopeful about the prospects. At the moment we are seeing the unemployment claimant count falling (it has fallen, I think, three months in a row now) and we are starting to see inroads into the very long-standing issue of incapacity benefits, thanks to the Pathways Programme—we have started to see reductions there—and so, looking at the CSR period and the prospects for AME spending, I think we are going to be in good shape.66

28. The forecasts for Annually Managed Expenditure up to 2010–11 set out when the final outcome of the 2007 Comprehensive Spending Review is announced will be crucial in determining the total amount of resources available within Departmental Expenditure Limits for allocation among departments consistent with the Total Managed Expenditure ceilings established in the 2007 Budget. In recent years, outturns for Annually Managed Expenditure have exceeded initial forecasts, and the initial forecasts for 2006–07 and 2007–08 made at the time of the 2004 Spending Review may prove over-optimistic. We recommend that the Government ensure an appropriate margin of caution in its equivalent forecasts in the 2007 Comprehensive Spending Review for the period up to 2010–11.

**Fiscal constraints**

29. Decisions on the planning and control of spending take place within the context of overall fiscal policy and considerations about the fiscal rules. As we noted earlier, the fiscal rules—the golden rule and the sustainable investment rule—are designed to act as a constraint upon spending or, in the case of the golden rule, on increases in spending without appropriate increases in revenue receipts.67

30. During the economic cycle which the Government now believes began in 1997 and which the Government expects to end in 2007, the initial Departmental Expenditure Limits set out in the various Spending Reviews, although characterised as firm, multi-year limits, have been subject to upward revision. Table 3 compares initial plans for Departmental Expenditure Limits set out in the earliest relevant Spending Review with the outturns up to 2005–06, the latest estimate of outturn for 2006–07 and the latest plans for 2007–08.68 Table 3 demonstrates the extent of such upward revisions, and shows that they have been more limited in scope in recent years.

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66 Q 6
67 See paragraph 14.
68 In each case, the initial Spending Review figure is the first total given, so that, for example, the figure for 2005–06 is taken from SR 2002, not SR 2004. The calculations take no account of definitional and classification changes relating to outturn data.
Table 3: Comparison of initial plans for Departmental Expenditure Limits in Spending Reviews with outturns, 1998–99 to 2007–08

<table>
<thead>
<tr>
<th>Year</th>
<th>(1) Initial Spending Review Departmental Expenditure Limits £ million</th>
<th>(2) Outturn for Departmental Expenditure Limits(1) £ million</th>
<th>Difference between (1) and (2) £ million</th>
<th>Difference between (1) and (2) %</th>
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<tbody>
<tr>
<td>1998–99</td>
<td>168,800</td>
<td>179,400</td>
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<td>1999–2000</td>
<td>179,200</td>
<td>189,000</td>
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<td>2000–01</td>
<td>190,100</td>
<td>205,300</td>
<td>15,200</td>
<td>8.0</td>
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<td>2001–02</td>
<td>200,200</td>
<td>224,600</td>
<td>24,400</td>
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<td>2002–03</td>
<td>229,300</td>
<td>241,300</td>
<td>12,000</td>
<td>5.2</td>
</tr>
<tr>
<td>2003–04</td>
<td>245,700</td>
<td>266,700</td>
<td>21,000</td>
<td>8.5</td>
</tr>
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<td>2004–05</td>
<td>279,800</td>
<td>283,500</td>
<td>3,700</td>
<td>1.3</td>
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<td>2005–06</td>
<td>301,000</td>
<td>303,000</td>
<td>2,000</td>
<td>0.7</td>
</tr>
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<td>2006–07</td>
<td>321,400</td>
<td>321,500</td>
<td>100</td>
<td>0.0</td>
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<tr>
<td>2007–08</td>
<td>340,500</td>
<td>344,100</td>
<td>4,000</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Sources: CSR 1998, Table 2, p 16; SR 2000, Table 1.1, p 4; SR 2002, Table 1.1, p 6; SR 2004, Table 1.1, p 5; PESA 2004, Table 1.1, p 8 (for 1998–99 outturn); PESA 2005, Table 1.1, p 8 (for 1999–2000 outturn); PESA 2006, Table 1.1, p 11 (for 2000–01 outturn); PESA 2007, Table 1.1, p 11 (for all figures in column 3 from 2001–02 onwards)

Notes (1) All figures rounded to nearest £100 million; (2) estimated outturn; (3) latest plans

31. The differences between initial Departmental Expenditure Limits and outturns are due to a range of factors. A number of changes have arisen from conscious decisions by the Government to utilise the flexibility inherent in the spending regime. First, Spending Reviews held every two years have provided an opportunity to revise totals for the third year of a spending period, initial limits for which were set in the preceding Spending Review. For example, the limit for 2003–04 was set at £439.6 billion in the 2000 Spending Review, but revised upwards to £454.6 billion in the 2002 Spending Review.69 Similarly, the limit for 2005–06 was set at £511.4 billion in the 2002 Spending Review, but revised upwards to £520.8 billion in the 2004 Spending Review.70 Second, as was apparent from Table 2, the years up to 2001–02 saw outturns for Annually Managed Expenditure markedly below initial forecasts, giving freedom for resources to be re-allocated to spending within Departmental Expenditure Limits without exerting upward pressure on Total Managed Expenditure. In the past, the Chancellor of the Exchequer has acknowledged the scope for flexibility in initial spending totals within Departmental Expenditure Limits. In evidence to our predecessors on the 2002 Spending Review, he

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69 SR 2000, Table 1.1, p 4; SR 2002, Table A.2, p 165
70 SR 2002, Table A.2, p 165; SR 2004, Table 1.1, p 5
readily conceded that initial totals within Departmental Expenditure Limits had been and could be increased, subject to compliance with the fiscal rules:

We have got to beat our fiscal rules. We have got to meet the rules I set down, which means that there has got to be a current balance and also debt has got to be at a sustainable level. The spending plans I have set down are affordable and they are affordable on the basis of the revenues which we have raised … The spending plans could only be increased if it was affordable to do so … We would have to base that [a decision to increase expenditure beyond initial limits] on the meeting of our fiscal rules.71

32. Public sector net investment is constrained by the sustainable investment rule, which in the economic cycle which the Treasury now considers began in 1997–98 is formulated as requiring that net debt be maintained below 40% of GDP in each and every year of the economic cycle.72 Limits on capital spending have been set for the period covered by the Comprehensive Spending Review, with such expenditure rising to £57 billion by 2010–11.73 On the basis of these limits, the Treasury’s latest forecast is that public sector net debt will increase to 38.5% of GDP in 2008–09, rise further to 38.8% of GDP in 2009–10 and remain at that level in 2010–11.74 The margin available before the sustainable investment rule limit would be breached is thus smaller than during previous Spending Review periods,75 although two points need to be borne in mind. First, there has been a consistent pattern for outturns for public sector net investment to be below initial plans.76 Second, as we have already noted, the Government has not clarified whether, during the new economic cycle, the limit on net public sector investment of 40% under the sustainable investment rule will apply to each year of that economic cycle or will be applied as an average over the cycle.77

33. As far as current expenditure is concerned, the relevant fiscal rule is the golden rule. The golden rule need not operate directly as a constraint upon public expenditure, because that rule is concerned with the overall state of the current budget balance over an economic cycle. Thus, short-term increases in the current budget deficit, whether caused by increases in spending or reductions in revenue or a combination of both, can be off-set by current budget surpluses at other phases in what is judged by the Government to be the same economic cycle. Also, increases in spending can be off-set by increases in revenue. These can take the form of explicit increases in rates of taxation, sometimes intended to pay for increased spending, such as increases in national insurance contributions in 2002 to fund increases in National Health Service funding,78 or of the effects of fiscal drag, or of instances when tax receipts exceed initial forecasts.

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71 HC (2001–02) 1092–i and ii, Qq 339–343
72 See paragraph 14.
73 See paragraph 18 and Table 1 of this Report.
74 Budget 2007, Table C1, p 270
75 For example, the Budget preceding the 2002 Spending Review forecast that public sector net debt would be 31.0% of GDP in the last year of the projection period, 2006–07 (Budget 2002, Table C2, p 207) and the Budget preceding the 2004 Spending Review forecast that public sector net debt would be 36.4% of GDP in the last year of the projection period, 2008–09 (Budget 2004, Table C1, p 244).
76 HC (2006–07) 389–l, paras 26–27
77 See paragraph 14.
78 Budget 2002, paras 6.41–6.45, p 124
34. Despite the absence of a direct and necessary relationship between levels of current public expenditure and prospects for compliance with the golden rule, there are reasons why this fiscal rule might operate as a significant constraint on such expenditure during the Comprehensive Spending Review period. First, according to the Government’s current forecasts and fiscal practice, the new economic cycle is expected to begin with a current budget deficit, which will need to be matched by current budget surpluses later in the same economic cycle if the golden rule is to be complied with. Second, for much of the economic cycle which the Treasury now estimates began in 1997–98, the Government’s forecasts of tax receipts proved to be underestimates, so that actual receipts significantly exceeded forecasts. More recently, forecasts of revenue receipts have had to be revised downwards rather than upwards, and there are signs that revenue receipts are not responding as positively to increased rates of economic growth as on some occasions in the past. Finally, the overall tax burden, measured as a proportion of GDP, is high by historic standards. In 2008–09, the tax-GDP ratio is projected to be 38.0%, rising slightly to 38.1% in both 2009–10 and 2010–11. These are the highest levels reached since the mid-1980s. The high levels of the tax-GDP ratio by recent standards might mean that the public appetite for further tax increases to off-set any additional increases in current public expenditure would be limited.

35. In the periods covered by earlier Spending Reviews, initial limits on spending within Departmental Expenditure Limits have been subject to subsequent upward revision. In some cases, this has been as a result of the use of the flexibility offered within the fiscal framework. In the period to be covered by this Comprehensive Spending Review, the Government’s freedom to increase such public expenditure beyond initial allocations while continuing to comply with its fiscal rules is likely to be more constrained than has been the case during much of the last decade.

How real are “real terms”?

36. The general practice of the Government in announcing early spending settlements and the overall spending envelope as part of the Comprehensive Spending Review has been to express increases or reductions in percentages in “real terms”. This approach is generally clearer than describing percentage increases in “nominal terms”—in other words, without taking account of the effect of inflation. The use of nominal terms has the effect of overstating increases. For the purposes of determining “real terms”, the Treasury uses the GDP deflator, which is a measure of general inflation in the domestic economy. For the years covered by the Comprehensive Spending Review, the Treasury is currently using a GDP deflator of 2.70% in each year. Thus, if the Departmental Expenditure Limit of a particular department is said to be frozen in real terms over the period covered by the

79  Budget 2007, Table C1, p 270; HC (2006–07) 389–I, para 29
80  HC (2006–07) 389–I, paras 17–22
81  Budget 2007, Table C10, p 286
82  HC (2005–06) 944–I, Figure 1 and para 53
83  http://www.hm-treasury.gov.uk/economic_data_and_tools/gdp_deflators/data_gdp_index.cfm
84  PESA 2007, Table F2, p 210
Comprehensive Spending Review, it can be assumed that that Limit will rise by 2.7% a year in nominal terms in 2008–09, 2009–10 and 2010–11.

37. The use of the GDP deflator in describing public sector budgets is a long-standing practice of the Treasury, but this measure can be of limited value in understanding the actual effect of expenditure allocations of a particular size in particular areas, partly due to the Relative Price Effect—in other words, the movement over time of a specific price index relative to a general price index such as the GDP deflator. For example, although the Ministry of Defence no longer publishes an index of defence specific prices, there are independent analyses which suggest that defence equipment prices rise at about 10% a year in real terms. There are other instances where the GDP deflator may be inadequate as a measure for understanding pressures on spending in particular departments, for example where a high proportion of spending takes place abroad.

38. A substantial component of public spending is used for the public sector wage bill. The Government has stated that

Over the 2007 CSR period controlling pay spending will be essential in delivering value for money from public spending and keeping inflationary pressures in check. The Government has made clear that pay settlements must be consistent with the achievement of the CPI inflation target of 2% and demonstrated this commitment by announcing on 1 March 2007 that the overall headline awards for Pay Review Body groups in 2007–08 are to be less than the 2% inflation target, averaging 1.9%, the lowest level of awards in over 10 years. In preparation for the 2007 CSR, key departments will prepare pay and workforce plans setting out how they will achieve the Government’s objectives in pay policy and service delivery throughout the period.

The Chief Secretary to the Treasury emphasised the importance of containing overall public sector pay budgets, implying that higher pay settlements would lead to public sector job reductions. He emphasised the importance of

affordability of public services in the CSR period … I think it is important that we do not, through excessively high pay increases, reduce the number of people who can be employed in the public service.

**Migration and demography**

39. There are likely to be additional pressures on public spending in the period covered by the Comprehensive Spending Review as a result of population increase. According to the Government,

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85 Ev 117
86 Defence Committee, Memorandum from Keith Hartley submitted for inquiry into UK defence: commitments and resources, available at [http://www.publications.parliament.uk/pa/cm200607/cmselect/cmfence/ucsn4/ucm02.htm](http://www.publications.parliament.uk/pa/cm200607/cmselect/cmfence/ucsn4/ucm02.htm)
87 Budget 2007, para 6.29, p 148
88 Q 38
The 2007 Comprehensive Spending Review: prospects and processes

Official population projections produced by the Government Actuary’s Department (GAD) suggest a moderate acceleration in population growth over the decade from 2007, with the population expected to reach 64 million by 2017 in the principal projections … Natural change is projected to account for 50 per cent of UK population growth between 2007 and 2017 because the number of births is expected to exceed the number of deaths … Positive net migration is projected to account for the other half of UK population growth 2007–2017 under GAD’s principal projection.89

The extent to which population growth, arising in particular from positive net migration, is likely to have an effect within the planning period is apparent from the Government’s decision, in December 2006, to revise upwards its neutral estimate of trend output growth for the post-2006 period by a ¼ percentage point to reflect an upward revision to its estimate of working age population growth.90

40. During our inquiry into the 2006 Pre-Budget Report, Dr Martin Weale of the National Institute of Economic and Social Research noted that there was no evidence that the Government had taken account of population growth in its public expenditure plans, as opposed to its estimates of trend growth. Mr Robert Chote of the Institute for Fiscal Studies also drew attention to the fact that population growth would lead to a downward pressure on public spending per head, with implications for the quality of public services.91

In evidence for the current inquiry, the Local Government Association stressed the pressure on demand for local authority services from high levels of inward migration, levels which some local authorities considered significantly exceeded estimates by the Office for National Statistics.92

41. In response to such concerns, Treasury officials confirmed in December 2006 that “we have not put into the revenue projections or the expenditure projections the ways in which immigration might particularly increase one aggregate or another aggregate”, but pointed to a study which suggested that “immigrants contribute more fiscally than they consume”.93 The Chief Secretary to the Treasury pointed out that the effect of demographic change on public expenditure varied from sector to sector: thus, for example, pressures on health might increase because of a growth in the number of over 85 year olds, but the number of children would fall.94 With specific regard to positive net migration, he said:

We are looking at all the pressures and departments are looking at all the pressures they are expected to need to address … In terms of the big long-term challenges we have talked particularly about demography and I think that is going to be quite a big influence on the shape of public services looking over the period. Certainly there will

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89 *Long-term opportunities and challenges*, paras 3.8–3.10, p 28
90 HC (2006–07) 115, para 20
91 *Ibid*, para 26
92 Ev 112
93 HC (2006–07) 115, Q 162; *Institute for Public Policy Research, Paying their way: the fiscal contribution of immigrants in the UK*, April 2005
94 Q 157; *Long-term opportunities and challenges*, Chart 3.2 and para 3.19, p 32
be some more impact from migration, but I would not expect that to be on the same sort of scale.\(^{95}\)

42. In view of the long gestation period of the Comprehensive Spending Review and the extent to which the Government has sought to promote debate on and analysis of long-term challenges, the Government could have provided more information on the likely impact of net migration on demand for public services over the period covered by the Comprehensive Spending Review. We note the Government’s implied view that the overall fiscal effect of net inward migration will be positive over this period, with benefits in terms of revenue receipts outweighing the costs of additional public expenditure. However, public spending and tax receipts are different in kind. Increases in receipts are a matter for Treasury forecasting. Public expenditure is subject to firm limits, and must be planned for by Government departments, local authorities, health bodies and others. We recommend that, in advance of the final outcome of the Comprehensive Spending Review, the Treasury commission an analysis of the impact of net migration on demand for individual public services, to be published as part of the final announcement on the outcome.

43. The pressures on particular local services arising from net inward migration are one example of changes in population levels across the United Kingdom. The Government also expects changes in coming years in the distribution of population between England, Scotland, Wales and Northern Ireland, with the population of England expected to rise faster than that in other parts of the United Kingdom.\(^{96}\) Over time, this will exert downward pressure on the relative size of the block grants to devolved authorities. The Chief Secretary to the Treasury indicated that such allocations would continue to be made in accordance with the Barnett formula.\(^{97}\) More recently, the Chancellor of the Exchequer has confirmed that spending available to the Northern Ireland Executive will increase at least in line with inflation up to 2010–11.\(^{98}\)

\(^{95}\) Qq 158–159

\(^{96}\) Long-term opportunities and challenges, Chart 3.2 and para 3.12, p 29

\(^{97}\) Qq 80–82

\(^{98}\) HC Deb, 8 May 2007, col 2W5
4 The allocation of spending between departments

Education

44. It is usual for the central focus of a Spending Review at the time of its announcement to be on allocations to particular departments. As we noted earlier, the Government has already pre-empted that announcement to some extent through early spending settlements. In terms of quantity, the most important of these is the settlement for education which was announced in the 2007 Budget. Under this settlement, education spending will rise in real terms by 2.5% a year on average between 2007–08 and 2010–11. Based on the Government’s cautious assumptions about rates of economic growth for the purposes of public finance projections, total United Kingdom education spending over the period from 2008–09 to 2010–11 is forecast to grow fractionally below or around the growth rate of the economy. Taking the period from 1997 to 2010–11 as a whole, spending on education is projected to have risen from 4.5% of GDP to 5.6% of GDP.

45. Table 4 shows the United Kingdom education spending totals as a proportion of Total Managed Expenditure between 1996–97 and 2010–11.
Table 4: UK education spending as a proportion of Total Managed Expenditure, 1996–97 to 2010–11

<table>
<thead>
<tr>
<th>Year</th>
<th>Proportion (%)</th>
<th>Year</th>
<th>Proportion (%)</th>
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<td>1996–97</td>
<td>11.5</td>
<td>2004–05</td>
<td>12.7</td>
</tr>
<tr>
<td>1997–98</td>
<td>11.6</td>
<td>2005–06</td>
<td>12.8</td>
</tr>
<tr>
<td>1998–99</td>
<td>11.6</td>
<td>2006–07</td>
<td>12.9</td>
</tr>
<tr>
<td>1999–2000</td>
<td>11.9</td>
<td>2007–08</td>
<td>13.2</td>
</tr>
<tr>
<td>2000–01</td>
<td>12.2</td>
<td>2008–09(^{(1)})</td>
<td>13.2</td>
</tr>
<tr>
<td>2001–02</td>
<td>12.7</td>
<td>2009–10(^{(1)})</td>
<td>13.2</td>
</tr>
<tr>
<td>2002–03</td>
<td>12.5</td>
<td>2010–11(^{(1)})</td>
<td>13.4</td>
</tr>
<tr>
<td>2003–04</td>
<td>12.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: figures for UK education spending 1998–99 to 2006–07 taken from PESA 2007, Table 4.2, p 50; figure for UK education spending 2007–08 taken from PESA 2007, Table 1.12, p 21; figures for UK education spending 2008–09 to 2010–11 taken from Budget 2007, Table 6.4, p 158; figures for Total Managed Expenditure up to 2007–08 taken from PESA 2007, Table 4.2, p 50; figures for Total Managed Expenditure from 2008–09 to 2010–11 taken from Table 1 of this Report

Note: (1) based on approximation of Total Managed Expenditure contained in Table 1 of this Report

The forward projections for UK education spending rely on assumptions about some elements outside the Government’s control—the levels of expenditure by local authorities and devolved administrations. Nevertheless, the figures in Table 4 suggest that the education spending settlement announced in the 2007 Budget will serve to consolidate the higher priority accorded to education since 1999–2000.

**The Home Office and Department for Constitutional Affairs settlements**

46. In the 2006 Budget, the Chancellor of the Exchequer announced a Home Office spending settlement that would see that Department’s budget remain constant in real terms over the years 2008–09 to 2010–11. Further information about the settlement was provided in July 2006. Savings were projected from benchmarking within the National Offender Management Service, from end-to-end case management of asylum claims, from the Criminal Justice System IT programme and from the Home Office efficiency programme.\(^{103}\) In oral evidence in January 2007, the Chief Secretary to the Treasury implied that the Department-wide settlement gave the Home Secretary considerable freedom on the allocation of resources:

> It is a matter for the Home Office how it allocates the priorities that it sets and the budget it takes forward … I am satisfied, and the Home Secretary is satisfied, that he can manage his department within the resources that have been provided for the Home Office.\(^{104}\)

\(^{103}\) Releasing the resources, paras 5.34–5.50, pp 52–55

\(^{104}\) Qq 97, 112
The Chief Secretary subsequently indicated that the Treasury would continue to discuss Home Office budgetary decisions, particularly those relating to large capital projects such as new prisons.105

47. The spending settlement for the Department for Constitutional Affairs was announced in the 2006 Pre-Budget Report, with its budget falling by an annual average of 3.5% in real terms over the period from 2008–09 to 2010–11.106 About half of that Department’s budget is spent on legal aid and that early settlement was dependent upon timely implementation of costed proposals for reform of legal aid procurement announced by Lord Carter in July 2006.107 The Constitutional Affairs Committee has recently concluded that, while there is an urgent necessity to limit legal aid expenditure, the Government has introduced plans arising from the Carter Review “too quickly, in too rigid a way and with insufficient evidence”.108

48. On 29 March 2007, the Prime Minister announced his intention to create a Ministry of Justice, moving the National Offender Management Service and lead responsibility for criminal law and sentencing policy from the Home Office to the Department for Constitutional Affairs. The Cabinet Office’s 17-page document describing the machinery of government changes made no reference to the implications of the changes for departmental budgets.109 The Ministry of Justice came into being on 9 May 2007. When asked about resources for the new department on that day, the new Minister of State, the Rt. Hon. David Hanson MP, said:

With regard to the financing of Department … we are in the middle of a Comprehensive Spending Review settlement. I can assure him that the resources from the Home Office and the DCA are there on the table for this year as planned. Obviously, that will be subject to negotiation. However, he can take the reassurance that the Government are committed to reducing crime, and one of the main methods of doing so will be the role of my Rt Hon and noble Friend the Secretary of State and my other colleagues in the Ministry of Justice. I very much hope that the CSR settlement will reflect that.110

49. The value of early spending settlements on a departmental basis for the Home Office and the Department for Constitutional Affairs may be diminished as a result of the subsequent decision to transfer some Home Office functions to a new Ministry of Justice. The original spending settlement for the Home Office with zero real terms growth may well have been posited in part on the potential for savings within the National Offender Management Service and the Criminal Justice System IT programme, matters which are no longer the responsibility of the Home Office. A recent Ministerial statement could be interpreted as implying that the financial

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105 Qq 113–122
106 Pre-Budget Report 2006, Box 6.3, p 143
107 Qq 83-84; Releasing the resources, para 3.17, p 25
110 HC Deb, 9 May 2007, col 181
settlements for the Home Office and the Department for Constitutional Affairs might now be re-opened. We recommend that the Government clarify its funding intentions with regard to the Home Office and the Ministry of Justice at an early stage and in advance of the final outcome of the Comprehensive Spending Review, stating clearly whether the new Departments will be bound by the combined totals agreed by the Home Office and the Department for Constitutional Affairs and providing a breakdown of the expenditure allocation between the Departments.

The other early settlements

50. The following Departments and bodies have agreed settlements for the period from 2008–09 to 2010–11 which see their budgets fall by an annual average of 5% in real terms over the period:

- the Department for Work and Pensions;
- HM Revenue & Customs;
- HM Treasury;
- the Cabinet Office;
- the Privy Council Office;
- National Savings & Investments;
- the Food Standards Agency;
- the Government Actuary’s Department; and
- the Office of Fair Trading.\textsuperscript{111}

In addition, the Attorney General’s Departments have agreed budgets that fall by 3.5% a year in real terms over the period covered by the Comprehensive Spending Review.\textsuperscript{112}

51. The extent of these reductions illustrates the nature of the Government’s ambitions for spending allocations for departments that are not seen as the highest priorities for increased expenditure. The capacity to deliver these reductions is likely to be closely linked to the efficiency programme for the period from 2008–09 to 2010–11 which we consider later in this Report.\textsuperscript{113}

52. In contrast to the general tenor of these early settlements, at the time of the 2007 Budget but outside the formal framework of the Comprehensive Spending Review, the Government announced a funding settlement for the new Statistics Board up to 2011–12. The Board’s total budgetary limits will be £159 million in 2007–08, £216 million in 2008–09, £206 million in 2009–10, £303 million in 2010–11 and £321 million in 2011–12.\textsuperscript{114}

\textsuperscript{111} Budget 2006, Box 6.3, p 136; Pre-Budget Report 2006, Box 6.3, p 143; Budget 2007, para 6.25, p 147

\textsuperscript{112} Budget 2007, para 6.25, p 147

\textsuperscript{113} See paragraphs 60–87.

\textsuperscript{114} Letter from the Financial Secretary to the Treasury to the Chairman of the Treasury Committee, 21 March 2007
During the period covered by the Comprehensive Spending Review (up to 2010–11), funding for the new Statistics Board will increase by an average of 20.7% a year in real terms, but this increase does not necessarily reflect a longer term trend because of the substantial resource requirement associated with the 2011 Census.

**Prospects for other departments**

53. Of the other departments that have not reached a settlement, the prospects are probably clearest for the Department for International Development. The Government is committed to continuing to increase total United Kingdom official development assistance at the rate of growth achieved in 2007–08—13.9% in real terms—in order that total official development assistance would reach 0.7% of Gross National Income by 2013.\(^{115}\) However, the total for United Kingdom official development assistance includes some expenditure outside the Department for International Development’s Departmental Expenditure Limit, most notably debt relief. Accordingly, the Department for International Development’s own budget within Departmental Expenditure Limits is not guaranteed to rise at the same rate as the overall rate of growth for United Kingdom official development assistance as a whole to which the Government is committed.\(^{116}\) **We recommend that the Government make clear the relationship between the budget of the Department for International Development and total official development assistance and that it provide a clear statement of its calculation of official development assistance and quarterly statements tracking its growth.**

54. In order to provide further information about the prospects for remaining departments, Table 5 sets out an approximation of the elements of Total Managed Expenditure that are already “committed”, either as a result of early settlements or arising from the longer term commitment to increase official development assistance as a proportion of Gross National Income to 0.7% by 2013. All departmental figures in this Table relate only to expenditure within Departmental Expenditure Limits, and take no account of likely components of expenditure by those departments within Annually Managed Expenditure.

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### Table 5: Approximation of Departmental Expenditure Limits for certain departments with early settlements and the Department for International Development, 2007–08 to 2010–11

<table>
<thead>
<tr>
<th>Department</th>
<th>2007–08(1) £ million</th>
<th>2008–09 £ million</th>
<th>2009–10 £ million</th>
<th>2010–11 £ million</th>
<th>Average annual growth in real terms over CSR period (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and Skills</td>
<td>64,835</td>
<td>67,298(2)</td>
<td>70,622(2)</td>
<td>75,188(2)</td>
<td>2.3(2)</td>
</tr>
<tr>
<td>Home Office/Justice</td>
<td>18,499(3)</td>
<td>18,865(4)</td>
<td>19,239(4)</td>
<td>19,620(4)</td>
<td>–0.7(4)</td>
</tr>
<tr>
<td>Law Officers’ Departments</td>
<td>724</td>
<td>718(5)</td>
<td>711(5)</td>
<td>705(5)</td>
<td>–3.5(5)</td>
</tr>
<tr>
<td>International Development</td>
<td>5,259</td>
<td>5,941</td>
<td>6,712</td>
<td>7,582</td>
<td>10.0</td>
</tr>
<tr>
<td>Work and Pensions</td>
<td>7,637</td>
<td>7,451</td>
<td>7,270</td>
<td>7,093</td>
<td>–5.0</td>
</tr>
<tr>
<td>Chancellor’s Departments</td>
<td>5,113</td>
<td>5,049(6)</td>
<td>4,921(6)</td>
<td>4,903(6)</td>
<td>–4.0(6)</td>
</tr>
<tr>
<td>Cabinet Office</td>
<td>2,596</td>
<td>2,533</td>
<td>2,471</td>
<td>2,411</td>
<td>–5.0</td>
</tr>
<tr>
<td>Approximate total for “committed”</td>
<td>104,663</td>
<td>107,855</td>
<td>111,946</td>
<td>117,502</td>
<td>1.2</td>
</tr>
<tr>
<td>Departmental Expenditure Limits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: (1) All figures for 2007–08 taken from PESA 2007, Table 1.12, p 21; (2) figures for the Department for Education and Skills for 2008–09 onwards taken from Budget 2007, Table 6.3, p 157; the average annual growth in real terms differs from that implied in Budget 2007 because the growth rate is calculated from the higher baseline figure contained in PESA 2007, Table 1.12, p 21; (3) combined total for Home Office and Department for Constitutional Affairs; (4) assumes combined growth rate for Home Office and Ministry of Justice will be result of combination of initially stated average growth rates for Home Office and Department for Constitutional Affairs across CSR period; (5) assumes all Law Officer’s Departments will be subject to annual average real terms growth rate of –3.5% set for the Attorney General’s Departments; (6) assumes increases for Statistics Board as set out in the Financial Secretary to the Treasury’s letter to the Chairman of the Treasury Committee of 21 March 2007 and that all remaining resources within the Chancellor’s Departments will be subject to annual average real terms growth rate of –5% set for HM Revenue & Customs, HM Treasury, National Savings & Investments and the Government Actuary’s Department, using 2007–08 baseline of £4,954 million (total in PESA 2007, Table 1.12, p 21 for Chancellor’s Departments, minus £159 million attributed to statistics).

The figures in Table 5 are based on a number of working assumptions. The most important of these relates to the baselines for spending increases. With the exception of that for the Department for Education and Skills, early departmental settlements for the 2007 Comprehensive Spending Review have been announced in terms of rates of real terms growth over the period up to 2010–11 rather than on the basis of actual figures. The calculations in Table 5 are based on the latest figures available on Departmental Expenditure Limits in 2007–08, but the actual baselines used for settlements may be somewhat different. Also, it is assumed that:
• the Home Office and the Ministry of Justice together will be required to operate within a combined total equivalent to the limits initially set for the Home Office as previously constituted and the Department for Constitutional Affairs;¹¹⁷ and

• the budget of the Department for International Development will increase in real terms by 10.0% a year in each year covered by the Comprehensive Spending Review, a figure slightly below the overall expected rate of increase in United Kingdom official development assistance.¹¹⁸

Other assumptions are set out in notes to Table 5.

55. Tables 6 to 9 set out four possible scenarios for the increase in the budgets of the “uncommitted” Departments, which can be summarised as follows:

• Scenario A (Table 6): Annually Managed Expenditure increases at 2.1% a year in real terms during the Comprehensive Spending Review period (matching the rate of growth in 2006–07) and the Department of Health budget increases broadly in line with that of the Department of Education and Skills;

• Scenario B (Table 7): the Department of Health budget increases by 4.4% a year in real terms over that period, while Annually Managed Expenditure increases in line with the rate of growth in Scenario A;

• Scenario C (Table 8): Annually Managed Expenditure increases by 1.6% per year in real terms across the period, while the budget of the Department of Health increases at an annual average of 3.4% in real terms across the period; and

• Scenario D (Table 9): Annually Managed Expenditure increases at 2.6% a year in real terms across the period, while the Department of Health budget increases at the same rate as in Scenario C.

¹¹⁷ See paragraphs 46–49.
¹¹⁸ See paragraph 53.
Table 6: Prospects for Departmental Expenditure Limits for “uncommitted” Departments, 2007–08 to 2010–11: Scenario A

<table>
<thead>
<tr>
<th></th>
<th>2007–08 £ million</th>
<th>2008–09 £ million</th>
<th>2009–10 £ million</th>
<th>2010–11 £ million</th>
<th>Average annual growth in real terms over CSR period (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approximate Total Managed Expenditure$^{(1)}$</td>
<td>587,000</td>
<td>615,000</td>
<td>644,000</td>
<td>675,000</td>
<td>2.0</td>
</tr>
<tr>
<td>Assumed Annually Managed Expenditure$^{(2)}$</td>
<td>243,000</td>
<td>255,000</td>
<td>267,000</td>
<td>280,000</td>
<td>2.1</td>
</tr>
<tr>
<td>Assumed total Departmental Expenditure Limits$^{(3)}$</td>
<td>344,000</td>
<td>360,000</td>
<td>377,000</td>
<td>395,000</td>
<td>2.0</td>
</tr>
<tr>
<td>Approximate total for “committed” Departmental Expenditure Limits$^{(4)}$</td>
<td>104,700</td>
<td>107,900</td>
<td>111,900</td>
<td>117,500</td>
<td>1.2</td>
</tr>
<tr>
<td>Assumed DEL Reserve (and unallocated Special Reserve)</td>
<td>2,500</td>
<td>2,700</td>
<td>2,700</td>
<td>2,700</td>
<td>—</td>
</tr>
<tr>
<td>Assumed Health Departmental Expenditure Limit$^{(5)}$</td>
<td>92,900</td>
<td>97,700</td>
<td>102,700</td>
<td>108,000</td>
<td>2.4</td>
</tr>
<tr>
<td>Assumed combined total Departmental Expenditure Limit for other “uncommitted” Departments$^{(6)}$</td>
<td>143,900</td>
<td>151,700</td>
<td>159,700</td>
<td>166,800</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Notes: (1) All figures in this row derived from Table 1 of this Report and rounded to the nearest £1 billion; (2) figure for 2007–08 in this row derived from PESA 2007, Table 1.1, p 11; all subsequent figures based on assumed growth rate of 2.1% in real terms in each year of the CSR period; all figures rounded to nearest £1 billion; (3) figure for 2007–08 derived from PESA 2007, Table 1.1, p 11; all subsequent figures derived from deduction of assumed total for AME in row above from assumed total for TME in row above that for AME; (4) all figures in this row derived from Table 5 of this Report; (5) Figure for 2007–08 derived from PESA 2007, Table 1.12, p 21; all subsequent figures based on assumed growth rate of 2.4% in real terms in each year of the CSR period; (6) all figures derived from deduction of total of preceding three rows from assumed total Departmental Expenditure Limits.
Table 7: Prospects for Departmental Expenditure Limits for “uncommitted” Departments, 2007–08 to 2010–11: Scenario B

<table>
<thead>
<tr>
<th></th>
<th>2007–08 £ million</th>
<th>2008–09 £ million</th>
<th>2009–10 £ million</th>
<th>2010–11 £ million</th>
<th>Average annual growth in real terms over CSR period (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approximate Total Managed Expenditure(1)</td>
<td>587,000</td>
<td>615,000</td>
<td>644,000</td>
<td>675,000</td>
<td>2.0</td>
</tr>
<tr>
<td>Assumed Annually Managed Expenditure(2)</td>
<td>243,000</td>
<td>255,000</td>
<td>267,000</td>
<td>280,000</td>
<td>2.1</td>
</tr>
<tr>
<td>Assumed total Departmental Expenditure Limits(3)</td>
<td>344,000</td>
<td>360,000</td>
<td>377,000</td>
<td>395,000</td>
<td>2.0</td>
</tr>
<tr>
<td>Approximate total for “committed” Departmental Expenditure Limits(4)</td>
<td>104,700</td>
<td>107,900</td>
<td>111,900</td>
<td>117,500</td>
<td>1.2</td>
</tr>
<tr>
<td>Assumed DEL Reserve (and unallocated Special Reserve)</td>
<td>2,500</td>
<td>2,700</td>
<td>2,700</td>
<td>2,700</td>
<td>—</td>
</tr>
<tr>
<td>Assumed Health Departmental Expenditure Limit(5)</td>
<td>92,900</td>
<td>99,600</td>
<td>106,800</td>
<td>114,500</td>
<td>4.4</td>
</tr>
<tr>
<td>Assumed combined total Departmental Expenditure Limit for other “uncommitted” Departments(6)</td>
<td>143,900</td>
<td>149,800</td>
<td>155,600</td>
<td>160,300</td>
<td>1.0</td>
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</table>

Notes: (1) All figures in this row derived from Table 1 of this Report and rounded to the nearest £1 billion; (2) figure for 2007–08 in this row derived from PESA 2007, Table 1.1, p 11; all subsequent figures based on assumed growth rate of 2.1% in real terms in each year of the CSR period; all figures rounded to nearest £1 billion; (3) figure for 2007–08 derived from PESA 2007, Table 1.1, p 11; all subsequent figures derived from deduction of assumed total for AME in row above from assumed total for TME in row above that for AME; (4) all figures in this row derived from Table 5 of this Report; (5) Figure for 2007–08 derived from PESA 2007, Table 1.12, p 21; all subsequent figures based on assumed growth rate of 4.4% in real terms in each year of the CSR period; (6) all figures derived from deduction of total of preceding three rows from assumed total Departmental Expenditure Limits.
Table 8: Prospects for Departmental Expenditure Limits for “uncommitted” Departments, 2007–08 to 2010–11: Scenario C

<table>
<thead>
<tr>
<th></th>
<th>2007–08 £ million</th>
<th>2008–09 £ million</th>
<th>2009–10 £ million</th>
<th>2010–11 £ million</th>
<th>Average annual growth in real terms over CSR period (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approximate Total Managed Expenditure&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>587,000</td>
<td>615,000</td>
<td>644,000</td>
<td>675,000</td>
<td>2.0</td>
</tr>
<tr>
<td>Assumed Annually Managed Expenditure&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>243,000</td>
<td>254,000</td>
<td>265,000</td>
<td>277,000</td>
<td>1.6</td>
</tr>
<tr>
<td>Assumed total Departmental Expenditure Limits&lt;sup&gt;(3)&lt;/sup&gt;</td>
<td>344,000</td>
<td>361,000</td>
<td>379,000</td>
<td>398,000</td>
<td>2.3</td>
</tr>
<tr>
<td>Approximate total for “committed” Departmental Expenditure Limits&lt;sup&gt;(4)&lt;/sup&gt;</td>
<td>104,700</td>
<td>107,900</td>
<td>111,900</td>
<td>117,500</td>
<td>1.2</td>
</tr>
<tr>
<td>Assumed DEL Reserve (and unallocated Special Reserve)</td>
<td>2,500</td>
<td>2,700</td>
<td>2,700</td>
<td>2,700</td>
<td>—</td>
</tr>
<tr>
<td>Assumed Health Departmental Expenditure Limit&lt;sup&gt;(5)&lt;/sup&gt;</td>
<td>92,900</td>
<td>98,700</td>
<td>104,800</td>
<td>111,200</td>
<td>3.4</td>
</tr>
<tr>
<td>Assumed combined total Departmental Expenditure Limit for other “uncommitted” Departments&lt;sup&gt;(5)&lt;/sup&gt;</td>
<td>143,900</td>
<td>151,700</td>
<td>159,600</td>
<td>166,500</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Notes: (1) All figures in this row derived from Table 1 of this Report and rounded to the nearest £1 billion; (2) figure for 2007–08 in this row derived from PESA 2007, Table 1.1, p 11; all subsequent figures based on assumed growth rate of 1.6% in real terms in each year of the CSR period; all figures rounded to nearest £1 billion; (3) figure for 2007–08 derived from PESA 2007, Table 1.1, p 11; all subsequent figures derived from deduction of assumed total for AME in row above from assumed total for TME in row above that for AME; (4) all figures in this row derived from Table 5 of this Report; (5) Figure for 2007–08 derived from PESA 2007, Table 1.12, p 21; all subsequent figures based on assumed growth rate of 3.4% in real terms in each year of the CSR period; (6) all figures derived from deduction of total of preceding three rows from assumed total Departmental Expenditure Limits.
### Table 9: Prospects for Departmental Expenditure Limits for “uncommitted” Departments, 2007–08 to 2010–11: Scenario D

<table>
<thead>
<tr>
<th></th>
<th>2007–08 £ million</th>
<th>2008–09 £ million</th>
<th>2009–10 £ million</th>
<th>2010–11 £ million</th>
<th>Average annual growth in real terms over CSR period (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approximate Total Managed Expenditure(^{(1)})</td>
<td>587,000</td>
<td>615,000</td>
<td>644,000</td>
<td>675,000</td>
<td>2.0</td>
</tr>
<tr>
<td>Assumed Annually Managed Expenditure(^{(2)})</td>
<td>243,000</td>
<td>256,000</td>
<td>270,000</td>
<td>284,000</td>
<td>2.6</td>
</tr>
<tr>
<td>Assumed total Departmental Expenditure Limits(^{(3)})</td>
<td>344,000</td>
<td>359,000</td>
<td>374,000</td>
<td>391,000</td>
<td>1.7</td>
</tr>
<tr>
<td>Approximate total for “committed” Departmental Expenditure Limits(^{(4)})</td>
<td>104,700</td>
<td>107,900</td>
<td>111,900</td>
<td>117,500</td>
<td>1.2</td>
</tr>
<tr>
<td>Assumed DEL Reserve (and unallocated Special Reserve)</td>
<td>2,500</td>
<td>2,700</td>
<td>2,700</td>
<td>2,700</td>
<td>—</td>
</tr>
<tr>
<td>Assumed Health Departmental Expenditure Limit(^{(5)})</td>
<td>92,900</td>
<td>98,700</td>
<td>104,800</td>
<td>111,300</td>
<td>3.4</td>
</tr>
<tr>
<td>Assumed combined total Departmental Expenditure Limit for other “uncommitted” Departments(^{(6)})</td>
<td>143,900</td>
<td>149,700</td>
<td>154,600</td>
<td>159,500</td>
<td>0.8</td>
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</tbody>
</table>

Notes: (1) All figures in this row derived from Table 1 of this report and rounded to the nearest £1 billion; (2) figure for 2007–08 in this row derived from PESA 2007, Table 1.1, p 11; all subsequent figures based on assumed growth rate of 2.6% in real terms in each year of the CSR period; all figures rounded to nearest £1 billion; (3) figure for 2007–08 derived from PESA 2007, Table 1.1, p 11; all subsequent figures derived from deduction of assumed total for AME in row above from assumed total for TME in row above that for AME; (4) all figures in this row derived from Table 5 of this Report; (5) Figure for 2007–08 derived from PESA 2007, Table 1.12, p 21; all subsequent figures based on assumed growth rate of 3.4% in real terms in each year of the CSR period; (6) all figures derived from deduction of total of preceding three rows from assumed total Departmental Expenditure Limits.
The 2007 Comprehensive Spending Review: prospects and processes

56. The Department of Health budget is treated separately in these scenarios because it is by far the largest single budget subject to multi-year Departmental Expenditure Limits and because it has seen very significant rates of increase in recent years. High rates of growth in health spending since 2002 arose in part from the analysis in the Wanless Review, and the rate of growth of 4.4% a year in real terms included in Scenario B has been chosen because it is a level of growth in spending envisaged in certain circumstances in the Wanless Review.\(^{119}\) When asked whether health spending increases during the period covered by the Comprehensive Spending Review were likely to match the levels of between 4.2% and 5.1% real terms annual growth posited by Wanless, the Chief Secretary replied:

No, I do not think that necessarily will be the case. What we have done as a result of the additional funding of the last few years, is get ourselves into a position where, broadly, by next year, spending on health will be roughly in line with the European average, which was the intention when the programme started. We will set out in the Summer what the appropriate level for health funding in the CSR years is going to be … I think the period ahead will be one of consolidation where the rate of growth of spending will be less … The last couple of spending review periods across public services has been a period of catching up on past under-investment. We have done that now and the next period is going to be rather different in character.\(^{120}\)

57. These Scenarios, and Scenarios C and D in particular, demonstrate the significant impact the forecast rate of growth of Annually Managed Expenditure—comprised of components such as social security and tax credits expenditure, locally-financed expenditure and government debt interest payments—will have on the prospects for settlements for “uncommitted” Departments. If the growth of Annually Managed Expenditure in real terms were planned to be held at an average rate of growth of 1.6% a year over the period covered by the Comprehensive Spending Review, it might be possible to combine a Department of Health settlement with a 3.4% annual average increase in real terms with an overall budget for other “uncommitted” Departments taken together rising in real terms by 2.3% a year across that period. However, if Annually Managed Expenditure were to be planned to rise at 2.6% a year in real terms in that period and the Department of Health settlement were the same, Scenario D suggests that the remaining budget available for other “uncommitted” Departments would rise by an average of only 0.8% a year in real terms up to 2010–11. As we have noted above, the rate of growth of Annually Managed Expenditure has not fallen below 2.1% a year in real terms since 2001–02, and, in recent years, outturns for Annually Managed Expenditure have been in excess of initial forecasts,\(^{121}\) notwithstanding the Government’s commitment to base forecasts of Annually Managed Expenditure on “cautious estimates”.\(^{122}\)

Conclusions

58. Table 10 sets out the growth rates in spending settlements within Departmental Expenditure Limits by department in the 2004 Spending Review and, where known, in the

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119 IFS Green Budget, p 144
120 Qq 55, 56
121 See paragraphs 23–25.
122 CSR 1998, Annex B, 117
2007 Comprehensive Spending Review. Departments are shown in ascending order according to the generosity of their 2004 Spending Review settlements.

Table 10: Average annual growth rates in real terms of spending within Departmental Expenditure Limits in 2004 Spending Review, and in early settlements for 2007 Comprehensive Spending Review

<table>
<thead>
<tr>
<th>Department</th>
<th>Average annual growth rate in SR 2004 in real terms from 2004-05 baseline (%)</th>
<th>Average annual growth rate in CSR 2007 in real terms from 2007-08 baseline (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work and Pensions</td>
<td>-2.8</td>
<td>-5</td>
</tr>
<tr>
<td>Northern Ireland Office</td>
<td>-2.7</td>
<td></td>
</tr>
<tr>
<td>Chancellor's Departments</td>
<td>1.1</td>
<td>-4.0(1)</td>
</tr>
<tr>
<td>Environment, Food and Rural Affairs</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>Cabinet Office</td>
<td>1.2</td>
<td>-5</td>
</tr>
<tr>
<td>Defence</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>Foreign and Commonwealth Office</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>Department for Constitutional Affairs</td>
<td>1.5</td>
<td>-3.5</td>
</tr>
<tr>
<td>Culture, Media and Sport</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>Local Government</td>
<td>2.6</td>
<td></td>
</tr>
<tr>
<td>Home Office</td>
<td>2.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Law Officers’ Departments</td>
<td>2.9</td>
<td>-3.5(2)</td>
</tr>
<tr>
<td>Trade and Industry</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>Northern Ireland Executive</td>
<td>3.1</td>
<td></td>
</tr>
<tr>
<td>Office of the Deputy Prime Minister</td>
<td>3.3</td>
<td></td>
</tr>
<tr>
<td>Scotland</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>4.5</td>
<td></td>
</tr>
<tr>
<td>Wales</td>
<td>4.5</td>
<td></td>
</tr>
<tr>
<td>Education and Skills</td>
<td>5.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Health</td>
<td>6.9</td>
<td></td>
</tr>
<tr>
<td>International Development</td>
<td>9.2</td>
<td></td>
</tr>
</tbody>
</table>

Sources: SR 2004, Table A.4, p 185; HC (2006–07) 389–I, para 80

Notes: (1) assumes increases for Statistics Board as set out in the Financial Secretary to the Treasury's letter to the Chairman of the Treasury Committee of 21 March 2007 and that all remaining resources within the Chancellor's Departments will be subject to annual average real terms growth rate of -5% set for HM Revenue & Customs, HM Treasury, National Savings & Investments and the Government Actuary's Department, using 2007–08 baseline of
This Table highlights two points. With the exception of the Department for Education and Skills, the early settlements have tended to be reached by departments which fared less well in the last Spending Review and so may have entered the current process with lower expectations. This suggests that many of the most challenging settlements lie ahead. Furthermore, all departments that have so far agreed settlements have done so at levels significantly below the rates of growth provided for in the 2004 Spending Review settlements.

59. The level of the resources available to be allocated to most of the departments that have not reached early settlements depends on three key variables: first, the rate of increase in health spending; second, the prospective rate of increase of Annually Managed Expenditure; and, third, the number of additional larger departments that agree settlements with real terms reductions in spending.
5 Embedding efficiency

Learning the lessons of the Gershon programme

60. A key strategic aim for the Government in shaping the 2007 Comprehensive Review is to concentrate not only on how much is spent, but how it is spent, in order to make finite resources go further. In pursuing this aim, the Government is seeking to build upon the record of the efficiency programme established as part of the previous Spending Review settlement.123

61. Alongside the 2004 Spending Review, the Government published a report by Sir Peter Gershon which reviewed the scope for further efficiencies in public spending.124 Drawing on the Government’s decision announced in the 2004 Budget to set “a stretching but realistic target for the whole public sector to deliver efficiencies of 2.5% a year over the three years of the 2004 Spending Review period which would deliver gains equivalent to £20 billion a year by 2007–08”, Sir Peter Gershon identified annual savings on a departmental basis amounting to around £21.5 billion a year by 2007–08.125 The Government accepted Sir Peter’s recommendations, and departments agreed targets for the 2004 Spending Review period based on the savings identified by Sir Peter Gershon.126

62. The efficiency savings targets set in monetary terms as part of the 2004 Spending Review are summarised in Table 11. At the time that the Gershon efficiency programme was launched, considerable scepticism was voiced about whether the stretching targets to save over £21 billion could be achieved within the period of the 2004 Spending Review.127 The final column of Table 11 shows the percentage of the annual savings target for each department in 2007–08 that had already been reported in the annual value of savings reported by December 2006. This shows that most departments have already reported as delivered monetary savings of at least around two-thirds of the total value of the annual savings intended to be achieved by the end of 2007–08. Some departments have already reported the delivery of savings that exceed their targets; others have a long way to go.

123 Releasing the resources, paras 1.20–1.21, p 12
124 Sir Peter Gershon CBE, Releasing resources to the front line: Independent Review of Public Sector Efficiency, July 2004
125 Ibid, para 3.3 and Table 4.1 pp 21, 30
126 SR 2004, paras 2.5–2.9 and Table 2.1, pp 15–16
127 HC (2003–04) 906–i and ii, Q 43
### Table 11: The challenge of the Gershon efficiency programme

<table>
<thead>
<tr>
<th>Department</th>
<th>(1) DEL total for 2007–08 set in SR 2004 £ million</th>
<th>(2) Agreed “Gershon” efficiency target for 2007–08 £ million</th>
<th>(3) (2) as a proportion of (1) (%)</th>
<th>(4) Average annual growth rate in SR 2004 in real terms from 2004–05 baseline (%)</th>
<th>(5) Proportion of (2) reported as delivered by end of December 2006 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and Skills</td>
<td>35,206</td>
<td>4,350</td>
<td>12.4</td>
<td>5.7</td>
<td>37.3</td>
</tr>
<tr>
<td>Health</td>
<td>94,381</td>
<td>6,470</td>
<td>6.9</td>
<td>6.9</td>
<td>68.8</td>
</tr>
<tr>
<td>Transport</td>
<td>12,857</td>
<td>785</td>
<td>6.1</td>
<td>4.5</td>
<td>67.8</td>
</tr>
<tr>
<td>Office of the Deputy Prime Minister</td>
<td>8,377</td>
<td>620</td>
<td>7.4</td>
<td>3.3</td>
<td>85.8&lt;sup&gt;(1)&lt;/sup&gt;</td>
</tr>
<tr>
<td>Home Office</td>
<td>14,854</td>
<td>1,970</td>
<td>13.3</td>
<td>2.7</td>
<td>107.5</td>
</tr>
<tr>
<td>Constitutional Affairs</td>
<td>3,851</td>
<td>290</td>
<td>7.5</td>
<td>1.5</td>
<td>84.1</td>
</tr>
<tr>
<td>Law Officers’ Departments</td>
<td>718</td>
<td>40</td>
<td>5.6</td>
<td>2.9</td>
<td>205.9&lt;sup&gt;(2)&lt;/sup&gt;</td>
</tr>
<tr>
<td>Ministry of Defence</td>
<td>33,447</td>
<td>2,830</td>
<td>8.5</td>
<td>1.4</td>
<td>66.0</td>
</tr>
<tr>
<td>Foreign and Commonwealth Office</td>
<td>1,649</td>
<td>120</td>
<td>7.3</td>
<td>1.4</td>
<td>57.5</td>
</tr>
<tr>
<td>International Development</td>
<td>5,323</td>
<td>310</td>
<td>5.8</td>
<td>9.2</td>
<td>83.5</td>
</tr>
<tr>
<td>Trade and Industry</td>
<td>6,582</td>
<td>380</td>
<td>5.8</td>
<td>3.0</td>
<td>93.2</td>
</tr>
<tr>
<td>Environment, Food and Rural Affairs</td>
<td>3,533</td>
<td>610</td>
<td>17.3</td>
<td>1.2</td>
<td>67.4</td>
</tr>
<tr>
<td>Culture, Media and Sport</td>
<td>1,674</td>
<td>260</td>
<td>15.5</td>
<td>2.3</td>
<td>70.4</td>
</tr>
<tr>
<td>Work and Pensions</td>
<td>8,105</td>
<td>960</td>
<td>11.8</td>
<td>–2.8</td>
<td>104.7</td>
</tr>
<tr>
<td>Northern Ireland Office</td>
<td>1,154</td>
<td>90</td>
<td>7.8</td>
<td>1.1</td>
<td>76.7</td>
</tr>
<tr>
<td>Chancellor’s Departments</td>
<td>5,469</td>
<td>550</td>
<td>10.1</td>
<td>1.1</td>
<td>53.3</td>
</tr>
<tr>
<td>Cabinet Office</td>
<td>2,098</td>
<td>25</td>
<td>1.2</td>
<td>1.2</td>
<td>44.0</td>
</tr>
<tr>
<td>Local Government</td>
<td>51,016</td>
<td>6,450</td>
<td>12.6</td>
<td>2.6</td>
<td>70.4</td>
</tr>
</tbody>
</table>


**Notes:** (1) Now the Department for Communities and Local Government; (2) reported delivery relates only to Crown Prosecution Service in relation to original target of £34 million
63. In evidence to us in March 2007, Mr John Oughton, out-going Chief Executive of the Office of Government Commerce, stressed that the programme as a whole was on track:

the programme … is delivering broadly as we expected, namely that procurement would be the earliest area of gains, the easiest to measure, straight to cash off the bottom line as contracts were negotiated, and that some of the more substantial tasks that had to be undertaken, developing an approach to productive time, dealing with corporate services, the other Gershon workstreams, would take longer to plan. I would not say they are harder, they just take longer to plan and longer to invest in in order to deliver, but the benefits will still be contained within the three years of the programme.128

In January, the Chief Secretary noted the verdict of the National Audit Office that the Gershon efficiency programme had been “more serious and more systematic than previous attempts to achieve efficiency in government. We have seen real, serious, top level engagement in the programme across departments and in the centre of government.”129

64. When we examined the Gershon programme during our Report on the 2006 Budget, we drew attention to the potential to carry forward the benefits of the programme into the Comprehensive Spending Review period.130 In response, the Government confirmed that,

For the Comprehensive Spending Review, the Government will look to put in place an efficiency and value for money framework that builds on the success of the current programme while seeking to learn lessons and to make improvements where appropriate.131

In learning lessons from the Gershon programme and considering the proposed efficiency programme for the period of the Comprehensive Spending Review, it is important to bear in mind the limitations in the Gershon programme identified in our various Reports considering the programme and in the two Reports on the programme produced by the National Audit Office. The main limitations can be summarised as follows:

- the transparency of the programme has been insufficient, particularly in the early stages of the programme, with inconsistencies and weaknesses in reporting by departments and with the decision of the Treasury prior to the 2007 Budget not to present an overall picture of departmental progress;132
- there has been insufficient clarity about the extent to which savings are reported net of any investment costs associated with securing the efficiency savings and about the extent to which savings are cash-releasing.133

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128 HC (2006–07) 389–II, Q 224
129 Q 38
130 HC (2005–06) 994–I, paras 77–79
133 HC (2005–06) 994–I, paras 72–76
there have been a number of outstanding issues relating to measurement and verification, including a lack of clarity about the extent to which savings have been fully verified and audited; and

in particular, there has been a lack of measurable and externally verifiable evidence to support the contention that all efficiency savings reported as delivered have been secured without a diminution in service quality.

65. In each of these areas, there have been improvements in the course of the period of the Gershon efficiency programme. The Treasury and the Office of Government Commerce have provided more information about the progress of the programme as a whole, including information on progress by department and by theme. More information is available about the extent to which savings reported are viewed as final and the Government has stated that it will undertake further work “to tackle the remaining measurement challenges during the final year of the programme, including by encouraging greater use of internal auditors and through further engagement with the NAO and the Audit Commission”. The Government has introduced a new reporting system which requires senior management in departments to sign off on the accuracy of reporting efficiencies and provide assurance that service quality has been maintained. We have examined the extent to which these and other lessons from the Gershon efficiency programme were being carried forward in the design of efficiency measures within the Comprehensive Spending Review framework.

Setting efficiency targets

66. The monetary targets established for each department as part of the 2004 Spending Review arose from a dialogue between Sir Peter Gershon and individual departments. In many cases the savings were “offered” by the departments concerned, and in all cases they were agreed between Sir Peter and the departments concerned. There were significant variations in the levels of the targets agreed with departments. Some departments, such as the Home Office, exceeded the broad departmental targets where the potential to go further existed. Professor Colin Talbot drew attention to the extent of the variation in departmental targets as a proportion of departmental budgets in evidence to our predecessors. The third column of figures in Table 11 shows efficiency targets as a proportion of total annual budgets for departments in 2007–08 as set in the 2004 Spending Review. Those targets vary from 1.2% in the case of the Cabinet Office to 17.3% in the case of the Department for the Environment, Food and Rural Affairs.

137 Budget 2007, para 6.19, p 146
139 Treasury Sub-Committee, Uncorrected transcript of oral evidence on 16 May 2007, Qq 224, 262; Releasing resources to the front-line, para 3.4, p 22
140 Releasing resources to the front line, para 3.4, p 22
141 HC (2003–04) 906–I and ii, Ev S2–S3
In the 2006 Pre-Budget Report, the Chancellor of the Exchequer announced that, “for the years to 2011, I have reached agreement with Secretaries of State for net efficiency savings in their overall budgets of 3% a year”. Professor Talbot pointed out this apparent across-the-board approach to efficiency savings was in sharp contrast with the approach of the Gershon programme and that the reasons for the different approach were unexplained. The Chief Secretary argued that this across-the-board approach was justified:

I think what we have seen through the Gershon Efficiency Programme and analysis that we have been doing over the last few weeks is that there is a potential, through really building in a culture of efficiency, to achieve that level of value for money savings in each department over the CSR period and for that to be a minimum. There may well be departments—I hope there will be—who are able to go further in the CSR period and, in so doing, release resources that they can then apply to their priorities, but I am confident that each department will be able to achieve at least the 3% level, and I think that will be very important as part of achieving a successful CSR round.

He argued that having clear overall targets would have the same value as the specific targets of the Gershon period in “galvanising departments and assisting them to produce big value for money savings”.

In its first study of the Gershon efficiency programme the National Audit Office noted that the overall target of £21.5 billion excluded most investment costs necessary to achieve the savings, in part because some such up-front capital investment was begun before the programme began. The study argued that, without additional investment costs being matched against gains, the £21.5 billion target overestimated the efficiency gains that would actually be achieved by 2007–08. In its second study, the National Audit Office noted:

departments have not been persuaded to go further than the letter of the Gershon Review in relation to reporting efficiency gains net of additional ongoing costs. Although OGC measurement guidance recognises that accounting for additional ongoing costs arising from reforms is best practice, only four out of the 10 departments contributing most to the £21.5 billion target try to subtract such costs from their reported savings.

The Gershon programme was not designed so as to provide that all efficiency savings delivered led to a direct benefit to the bottom line. Sir Peter Gershon’s initial estimate was that over 60% of the savings targeted would be cash-releasing, although savings which
were not cash-releasing would contribute towards meeting the overall target of £21.5 billion annual savings by 2007–08.

69. In the 2006 Pre-Budget Report, the Government announced that the focus of the value for money programme within the Comprehensive Spending Review period would be on delivering net cashable savings. In the 2007 Budget, the Government went further, making it explicit that “all of the savings delivered under the 2007 Comprehensive Spending Review value for money programme will be net of implementation costs and cash-releasing”. The Chief Secretary made the Treasury’s approach clear:

“We will build into the CSR plans, when they are published, assumptions about each department having achieved at least the 3% level of savings, and that will be taken account of in announcing how much each department has to spend in each year of the CSR period; but, of course, if departments are able to go further and make additional savings (and it may well be during course of the CSR they will identify ways to do that), then, yes, they will be able to use those savings in ways that they decide.”

70. Professor Talbot characterised the new targets as involving “a massive step change in the amount of money which is supposed to be saved in efficiency savings”. While over 60% of the Gershon efficiency savings were intended to be cash-releasing, all the efficiency savings from 2008–09 are required to be cash-releasing. The Chancellor of the Exchequer, in oral evidence to us on the 2007 Budget, appeared to accept that the new targets could be seen as more stretching than the variable efficiency targets set out in the Gershon review, many of which were not set net of implementation costs.

71. The Government has set out targets for a highly ambitious value for money programme for the period covered by the Comprehensive Spending Review. The targets set for the period covered by the 2004 Spending Review were varied to reflect an assessment by Sir Peter Gershon of each department’s capacity to secure efficiency savings. The Government is now adopting a different approach, imposing a minimum requirement to meet an annual target of savings of 3% of total departmental budget on an across-the-board basis for all departments.

72. We note the Government’s decision to require all savings during the period from 2008–09 to 2010–11 to be net of implementation costs and cash-releasing. We expect the Government to put in place measures to ensure that this is reflected in the framework for verification and reporting. In particular, we recommend that the Government clarify, at the time the final outcome of the Comprehensive Spending Review is announced, the reporting requirements relating to implementation costs, indicating whether standard accounting conventions will be used for identifying and distributing such costs.

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149 Pre-Budget Report 2006, para 6.26, p 142
150 Budget 2007, para 6.24, p 147
151 Q 21
152 HC (2006–07) 389–II, Q 93
153 Ibid, Qq 368–369
The framework for monitoring and reporting

73. Lead responsibility for implementing the Gershon Efficiency Review was given to John Oughton, the then Chief Executive of the Office of Government Commerce, working closely with the Treasury and reporting directly to the Chancellor of the Exchequer and the Prime Minister. An efficiency team was established within the Office of Government Commerce. That team was responsible for assuring the quality of departments’ implementation plans and their capacity to implement them, and was also charged with supporting and challenging departments more generally.\textsuperscript{154}

74. The Office of Government Commerce has been instrumental in securing gradual improvements to the measurement and reporting framework for the efficiency programme, and the National Audit Office has praised and supported its work.\textsuperscript{155} The Office of Government Commerce has brought about a greater involvement for senior management in departments in signing off efficiency gains and has encouraged a greater use of audit, both internal and external.\textsuperscript{156} The Chief Secretary told us:

This process has been very closely monitored by the Office of Government Commerce in collaboration with the National Audit Office. They have set very demanding measures of quality of service and they are tracking those to make sure that there is not a fall-off in service as a result of the implementation of the efficiency measures.\textsuperscript{157}

75. In January 2007, the Government announced that responsibility for monitoring the efficiency programme would be moved from the Office of Government Commerce to the Treasury:

Establishing the 2004 Spending Review efficiency programme on a sound footing and ensuring its delivery has been one of the OGC’s major achievements over the past two years. But going forward there needs to be a closer link between efficiency and financial controls. The OGC’s success means that the Government can now mainstream efficiency as part of routine departmental financial management. As a result, responsibility for efficiency will transfer from the OGC to the Treasury later this year.\textsuperscript{158}

Mr Oughton gave a similar account of the reasoning when he appeared before us in his last week in post:

The challenge now is to assess whether efficiency is now in the mainstream of how departments conduct their business planning and undertake their tasks. To be frank two and a half years ago when the programme started this was new territory for most departments and it was clear when they developed their plans that they were struggling to identify how to address the task. I am much more confident now that

\textsuperscript{154} Releasing resources to the front line, paras 4.8–4.10, p 32
\textsuperscript{155} HC (2006–07) 156–I, Executive Summary, para 11, p 6
\textsuperscript{156} See paragraph 65.
\textsuperscript{157} Q 30
\textsuperscript{158} HM Treasury, Transforming government procurement, January 2007, para 2.17, p 20
this is part of the routine, it is part of the mainstream of what departments do, and that gives us the confidence that we can mainstream the approach to efficiency for the next spending review into the normal financial control mechanisms of the Treasury … The Government’s direction of the Efficiency Programme will be extremely strong. It will be handled by the Public Spending Directorate in the Treasury so I think the mechanisms and levers will be as strong in the future as they are now.159

76. The Chief Secretary indicated that the Government accepted that there would remain a challenge in measuring efficiency, particularly in judging whether service quality had been maintained from the perspective of the customer:

I think that is going to be quite an important challenge across public services through the CSR years, to establish precisely that. That is why we will, in the new performance management framework before the CSR period, be making greater use of subjective measures, of user feedback, of user surveys and so on, so that we can track precisely what is happening in the perceptions of users for the services we are offering … From our point of view, what is essential is that we have actual information about customer feedback so that we can make the kind of judgements we need to make. There is no value from the departments’ point of view, or from ministers’ point of view in having inaccurate information.160

77. The efficiency programme established in 2004 represented a significant change in the Government’s approach to efficiency issues. In the words of Professor Talbot, “so-called efficiency savings have traditionally been treated by Treasury simply as reductions in departmental budgets and have not been measured at all”.161 The Gershon efficiency programme involved a government agency outside the Treasury mainstream in supporting and monitoring the programme and involved efficiency savings which did not need to show on the bottom line. There are signs of a reversion to a more traditional Treasury approach in the future, with efficiency matters being part of “routine departmental financial management” overseen by the Treasury’s Public Spending Directorate, and with all efficiency savings intended to be cash-releasing.

78. Even though the Government has established the principle that all efficiency savings from 2008–09 onwards should be cash-releasing, we are not convinced that monitoring and support from within the Treasury will be sufficient. We recommend that the Government ensure that a clearer performance measurement framework is established for the efficiency programme from 2008–09 onwards, including a greater role for external audit of service quality than hitherto. We further recommend that the Government ensure that a coherent framework for the verification and reporting of savings on a consistent basis is established as part of the post-2008 programme and that the Government set out the details of such a framework in publishing the final outcome of the Comprehensive Spending Review. We consider it essential that these

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159 HC (2006–07) 389–II, Qq 229, 231
160 Qq 86–87
161 HC (2003–04) 906–i and ii, Ev 50
arrangements include regular summaries of departmental achievements against targets in each Budget and Pre-Budget Report.

The Civil Service workforce and administration budgets

79. In addition to the overall targets for efficiency savings measured in monetary terms and set as part of the 2004 Spending Review, departments were also set targets at that time for reductions in the Civil Service workforce— and for military posts in administrative and support functions in the case of the Ministry of Defence— arising out of the efficiency programme. The overall target was for a gross reduction of 84,150 posts by April 2008, with a net target of 70,600 posts and the remaining reduction accounted for by reallocation of staff to “front-line” tasks. The Chancellor of the Exchequer told our predecessors at the time these reductions were announced:

We have accepted the numbers [of reductions in posts recommended by Sir Peter Gershon] until 2008— but he also said that to go further than that would put the delivery of public services at risk … Once these changes are made, I think people will know that that is the limit of what we are proposing for this period of time. I hope that, having made all these changes, other political parties will think twice about giving the impression or continuing to suggest that the public service workers who are doing the jobs should be made redundant, given Sir Peter’s recommendation, following a great deal of work, that this is the limit that could be achieved until 2008.163

80. At the time of that Spending Review, the Government estimated that headcount reductions would account for between 10% and 15% of the overall financial targets for the efficiency programme. The 2007 Budget stated that a gross reduction of 60,591 posts had been reported to December 2006, with 9,703 of that figure attributable to reallocations to “front-line” roles and 50,888 resulting from reductions. At the time of our evidence on that Budget, Mr Oughton characterised the progress as “good”, while acknowledging that “there are some remaining challenges”, particularly those associated with those departments which had a significant amount of their headcount reduction target up to April 2008 still to achieve.166

81. Five main concerns about the workforce reduction element of the efficiency programme have been highlighted during our consideration of the programme in the course of this Parliament:

- that the targets related to reductions attributable to the Gershon efficiency programme, and could be off-set by increases in Civil Service numbers arising from other developments, such as what are classified as new policy burdens;167

162 HC (2005–06) 994–I, para 78
163 HC (2003–04) 906–i and ii, Q 245
164 Ibid, Q 84
165 Budget 2007, Table 6.2, p 146
166 HC (2006–07) 389–II, Q 232
167 HC (2005–06) 739, para 75
that there remained some unresolved measurement and verification issues, including the use of early baselines—so that reductions secured before the programme began could be scored against the final total;¹⁶⁸

that there was no agreed definition of “front-line” posts, leading to uncertainty about net reductions attributed to re-allocation of civil servants to such posts;¹⁶⁹

that an undue focus on headcount reductions could simply lead to a shift of resources from direct employment to the use of consultants;¹⁷⁰ and

that workforce reductions could have a direct and detrimental effect on service quality and delivery.¹⁷¹

Partly reflecting such concerns, we recommended in our Report on the 2006 Budget that, “in seeking to embed a culture of efficiency in Government departments during the period covered by the Comprehensive Spending Review, the Government places greater emphasis on delivering and reporting on targets for continued reductions in departmental administration budgets rather than on workforce reductions attributed to efficiency projects”.¹⁷²

82. In evidence to us in December 2006 on that year’s Pre-Budget Report, the Chancellor of the Exchequer appeared to imply that further targets for Civil Service workforce reductions up to 2010–11 would be set:

As far as the jobs are concerned, we have published our figures for Civil Service job reductions and there are 85,000 job reductions going to take place; 45,000 jobs have gone and another 40,000 jobs are still to go. Obviously, for the years after 2008 we will publish figures later … There will be more jobs to go. I can assure you that in the next spending round, once we [have] met the Gershon targets, we will have to reduce Civil Service numbers further.¹⁷³

83. The Chancellor of the Exchequer’s assurance that Civil Service numbers would continue to fall up to 2010–11 was probably linked to his announcement made in the 2006 Pre-Budget Report that, “for the years to 2011, I have reached agreement with Secretaries of State … to cut their administration budgets by 5% a year” in real terms.¹⁷⁴

84. In the 2004 Spending Review the Government also made a commitment to bear down on administration budgets. In the 2004 Budget, the Chancellor of the Exchequer announced that the Spending Review would cap the administration costs of all departments at or below the 2005–06 nominal level, representing a real terms reduction of

¹⁶⁹ Ibid
¹⁷⁰ HC (2005–06) 994–I, para 79
¹⁷¹ Ev 72
¹⁷² HC (2005–06) 994–I, para 79
¹⁷³ HC (2006–07) 115, Qq 383, 385
¹⁷⁴ HC Deb, 6 December 2006, col 312; Pre-Budget Report 2006, para 6.29, p 143
The Security and Intelligence Agencies and the Foreign and Commonwealth Office were subsequently exempted from reductions at this level because of additional spending on “vital security needs”. The baseline for these reductions was the first year for which spending was available for allocation as part of the 2004 Spending Review; the Government did not follow its more general practice of using the last year preceding the period available for allocation under a Spending Review as the baseline for the purposes of determining increases or reductions in percentage terms. Also, at the time of the 2004 Spending Review, a number of changes were made to the classification of services, so that some expenditure that had been within administration budgets was moved outside into programme budgets, including the costs of immigration control and domestic security.

The Chief Secretary indicated that further changes between administration budgets and programme budgets were unlikely:

I do not think there is very much scope for that. There is recognition of what counts as administration budgets and what does not. … It is not true that departments can willy-nilly change classifications.

The Chief Secretary also indicated that he believed that the target of a 5% reduction a year in real terms in administration budgets in the years 2008–09, 2009–10 and 2010–11 was achievable:

We think it is important to do everything that we can to bear down on administration spending and to be more efficient, and I think we will be able to get to a position where administration spending actually counts for the lowest proportion of spending than it has done for a very long time as a result of these changes and spend less on administration and so release more for priority areas, programmes and others.

He also implied that no exceptions would be made to the targets for reductions in administration budgets, not even for the Department for International Development which is likely to see a sharply rising overall budget over the period.

To place the ambition implied in annual real terms reductions in administration budgets of 5% in 2008–09, 2009–10 and 2010–11 in context, Table 12 sets out the current expectations of the annual average rate of growth of administration budgets over the preceding three years covered by the 2004 Spending Review.

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175 Budget 2004, para 6.14, p 133; SR 2004, para 2.18, p 21
176 SR 2004, para 2.18, p 21
177 Ibid, para 2.17, p 20; HC (2003–04) 906–i and ii, Q 103
178 Q 22
179 Ibid
180 Q 48
Table 12: Administration budgets by departmental group, 2004–05 to 2007–08, £ million

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<tr>
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<tr>
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<td>283</td>
<td>263</td>
<td>270</td>
<td>266</td>
<td>−4.3</td>
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<td>290</td>
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<td>262</td>
<td>251</td>
<td>259</td>
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<td>222</td>
<td>265</td>
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<tr>
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<td>5,943</td>
<td>5,798</td>
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<td>78</td>
<td>92</td>
<td>79</td>
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<td>Chancellor’s Departments</td>
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<td>Cabinet Office</td>
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<td>982</td>
<td>1,068</td>
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<tr>
<td><strong>Total administration budgets</strong></td>
<td><strong>15,806</strong></td>
<td><strong>15,744</strong></td>
<td><strong>16,387</strong></td>
<td><strong>16,077</strong></td>
<td><strong>−1.8</strong></td>
</tr>
</tbody>
</table>

Source: PESA 2007, Tables 1.9 and F2, pp 18 and 210

The 2004 Spending Review did not establish targets for real terms reductions in administration budgets during the period covered by that Review as a whole, but it did envisage a general downward trend from 2005–06 across departments, other than the Foreign and Commonwealth Office and the Security and Intelligence Agencies. It is apparent from Table 12 that the imposition of a consistent downward trend on administration budgets across all departments during the period from 2008–09 to 2010–11 will be a departure from the likely pattern in the preceding Spending Review period.
We remain to be convinced about the value of further, explicit targets for reductions in Civil Service numbers for the period covered by the Comprehensive Spending Review. The Government’s highly ambitious target for reductions in all departmental administration budgets of 5% a year in real terms over the period from 2008–09 to 2010–11 is likely to exert downward pressure on Civil Service numbers. A separate target for Civil Service reductions runs the risk of distorting the efficiency programme, encouraging the replacement of civil servants with external consultants who may prove more expensive. If further targets for reductions in Civil Service numbers are adopted, we recommend that such targets be set with a clear and consistent baseline and that progress against targets be measured using statistics on Civil Service numbers compiled by the Office for National Statistics from 1 April 2008 onwards. We further recommend that any such targets be based solely on actual numbers serving in each department, so that re-allocations to “front-line” posts and increases related to what are classified as policy measures, both of which are open to subjective interpretation, are not treated as relevant to the performance against targets.
6 Public Service Agreements and beyond

The experience so far

88. As part of the new planning regime introduced in 1998, the Government has sought to link increased resources to improved outcomes. It has sought “to match new resources with reform”. One way it has sought to achieve these objectives has been through Public Service Agreements. The original aim of Public Service Agreements was to “bring together in a single document important information on aims and objectives, resources, performance and efficiency targets and related policy initiatives”: each Agreement was expected to include an introduction setting out the Minister or Ministers accountable for achievements; the aims and objectives of the department or cross-cutting area; the resources allocated to it in the Spending Review; and key performance targets. The Chief Secretary told us that he thought that

the performance management framework we have had, the arrangement about the PSAs, has been a very, very important contributor to the dramatic improvements we have seen in the outcomes from public services over the last few years: big reductions in waiting lists in health; big improvements in achievement in schools and so on. I would not want anybody to underestimate the value of the framework we have had in place, the contribution that the PSA system has been. Of course, it was a very radical departure in 1997 and a very successful one, but we have wanted to learn from our experience in the period.

89. A number of concerns have been expressed about the operation of Public Service Agreements in evidence to this Committee and our predecessors and in reports on Public Service Agreement targets by the National Audit Office and the Statistics Commission:

- that the system was too top-down and unwieldy, so that, for example, 14 Public Service Agreement targets for health in England were translated into 206 health targets and measures for NHS Trusts and Primary Care Trusts;
- that the quality of data measurement and the statistical infrastructure were not sufficient to measure with accuracy the extent to which Public Service Agreement targets had been met;
- that the long time-lags before data became available, coupled with the different sets of Public Service Agreement targets established under successive...

181 Budget 2002, para 6.40, p 122
182 HM Treasury, Public Services for the Future: Modernisation, Reform, Accountability, Cm 4181, December 1998, p 5
183 Q 146
184 HC (2003–04) 906–i and ii, Ev 49; Ev 25
Spending Reviews, created confusion and difficulties for those seeking to assess performance against targets;\(^\text{186}\) and

- that particular difficulties arose from targets held jointly between departments and that some issues which involved more than one department were not adequately captured within a framework predominantly composed of departmental Agreements and targets.\(^\text{187}\)

The Chief Secretary said that the Government had sought to learn the lessons of previous experience with Public Service Agreements in developing the framework for the 2007 Comprehensive Spending Review.\(^\text{188}\)

**The new framework**

90. The 2006 Pre-Budget Report gave an initial indication of how the Government expected the framework to change. First, there was an indication of a reduction in the number of Public Service Agreements:

> A new set of PSAs in the 2007 CSR will express a more focused list of key cross-government priority outcomes. This smaller set of corporate PSAs will reflect genuine choices about priorities for the 2007 CSR period, serving to unite efforts across departmental and organisational boundaries in meeting them.\(^\text{189}\)

The Chief Secretary similarly referred to “a refreshed and smaller suite of ‘corporate’ PSAs which articulate the Government’s highest priority outcomes for the period” which were “focused more tightly on the Government’s highest priority outcomes”.\(^\text{190}\) He indicated that the Government would be “significantly reducing” the number of Public Service Agreements.\(^\text{191}\) This commitment to reduce the number of Public Service Agreements follows the Government’s decision at the time of the 2004 Spending Review to reduce the number of Public Service Agreement targets to 110 from 250 at the time of the 2002 Spending Review.\(^\text{192}\) The current total is potentially misleading, both because there is an element of double-counting in targets relating to matters of cross-departmental interest and because some targets are in reality composites containing more than one target.\(^\text{193}\)

91. The Government also announced in the 2006 Pre-Budget Report that accountability for performance against Public Service Agreements would be strengthened:

> Departments will be required to produce a single, coherent, cross-departmental Delivery Agreement for each PSA, informed by consultation with the delivery chain. Delivery Agreements will clearly set out the level of ambition, strategy for delivery,

186 HC (2001–02) 1092–i and ii, Q 31; HC (2003–04) 906–i and ii, Q 159; The Devil in the Detail, p ix
188 Q 146
189 Pre-Budget Report 2006, para 6.55, p 150
190 Ev 121
191 Q 130
193 The Devil in the Detail, p 2; HC (2003–04) 906–i and ii, Ev 50
and the role of each organisation involved … For the first time these Delivery Agreements will be published, both to enhance Government’s accountability to the public and to ensure key actors throughout the delivery chain are focused on achieving the priorities.\footnote{Pre-Budget Report 2006, para 6.57, p 150}

The Chief Secretary told us that these Delivery Agreements would set out how each corporate Public Service Agreement was to be delivered, which was the lead department, who was responsible for delivery and how the Agreement would be delivered.\footnote{Q 140} He indicated that the Delivery Agreements would not be published at the same time as the outcome of the Comprehensive Spending Review, although the Delivery Agreements would be “published in advance of April 2008”.\footnote{Qq 130–131}

92. Alongside the smaller and tauter set of Public Service Agreements, “the broader business of Government will be covered by Departmental Strategic Objectives … These will be defined in the CSR and, building on the emerging findings from capability reviews, the CSR will ensure that they are effectively linked to the focused set of PSAs.”\footnote{Ev 121}

93. In the 2006 Pre-Budget Report, the Government indicated a commitment to consultation on the content of the new framework:

> In the 2007 CSR systematic engagement and collaboration with public service professionals early in the process will inform the way PSA outcomes are defined, measured and delivered. This will ensure that the Government sets robust indicators, which do not distort operational priorities or create perverse incentives, and that effective plans for delivery are in place from the outset.\footnote{Pre-Budget Report 2006, para 6.56, p 150}

The Chief Secretary envisaged consultation taking place with “front-line professionals, service users and broader stakeholders”.\footnote{Ev 121} He also welcomed the suggestions made by the Statistics Commission and the National Audit Office about data quality and validation, agreeing that “the effective use of data for monitoring improved outcome does need to be a cornerstone of the revised framework we will be putting in place”.\footnote{Q 148}

94. It remains unclear what function the new Public Service Agreement targets are intended to perform. There are two areas of uncertainty. First, Public Service Agreements have been seen as a form of quasi-contract, specifying the performance expected from departments (or cross-departmental programmes) in exchange for the public spending invested in them. Given that a number of departments have agreed Comprehensive Spending Review spending plans without apparently agreeing Public Service Agreement targets at the same time, it is unclear what part Public Service Agreement targets play in spending settlements. Secondly, the advent of Delivery Plans and Departmental Strategic Objectives raises issues about how these three sets of plans and targets fit together.

\begin{thebibliography}{99}
\bibitem{194} Pre-Budget Report 2006, para 6.57, p 150
\bibitem{195} Q 140
\bibitem{196} Qq 130–131
\bibitem{197} Ev 121
\bibitem{198} Pre-Budget Report 2006, para 6.56, p 150
\bibitem{199} Ev 121
\bibitem{200} Q 148
\end{thebibliography}
Conclusions

95. We welcome signs that the Government is seeking to learn lessons from the operation of the framework of Public Service Agreements in the years since 1998. In particular, we welcome the commitment to fewer, but better Public Service Agreements. The proposed reduction must be genuine; its value would be undermined if new Agreements simply brought together diverse topics within a single Public Service Agreement or if a reduction in the number of Public Service Agreements did not lead to a matching reduction in targets down the delivery chain. We are also concerned that some of the data measurement issues relating to targets seem unresolved, and we recommend that, in finalising Public Service Agreements, the Government has regard to the importance of ensuring that targets are measurable, that there is clarity about the methods of measurement and that data used for measurement is of adequate quality. We further recommend that the Government set out, in a single document, a public statement of how the Public Service Agreements, the Delivery Agreements and the Departmental Strategic Objectives fit together and form a coherent framework for enhancing the performance of Government departments and of public services.
The 2007 Comprehensive Spending Review: prospects and processes

7 The national debate and the role of Parliament

The national debate

96. In the 2006 Budget, the Government announced that it planned to initiate a national debate on the future priorities for public spending and public services, to inform the Comprehensive Spending Review. Treasury officials indicated to us then that this national debate would be in two stages, with an initial debate on the long-term challenges followed by a wider debate on the implications of those challenges for future spending priorities. The Chancellor of the Exchequer told us at that time that the Government “will be taking measures over the next few months to stimulate” the national debate, and provided instances of the way such a debate might be presented, for example in terms of the weekly cost to an average family of the provision of particular services.

97. The Government published two documents in 2006 relating to the Comprehensive Spending Review, one focused principally on departmental efforts to secure improved value for money, and one concentrating on very long-term issues with little direct reference to spending decisions within a three-year timeframe. Professor David Heald argued that the two documents “contain much interesting contextual material but do not address how to prioritise public expenditure or how to manage it when the inevitable slowdown of real growth bites from 2008–09”. He suggested that “there is no sign of a national debate” and pointed out that some departments had agreed settlements in advance of such a debate, so that

Even if there were a national debate, there is no mechanism for that to feed into decision-making on future spending priorities, especially when early settlers include the Home Office whose recent service-delivery and financial performance have attracted much criticism and public concern.

98. The Chief Secretary told us on 30 January that the Treasury was that day launching an interactive website on the Comprehensive Spending Review to solicit the views of the public. He conceded that

at the moment the level of knowledge of the likely changes [in terms of overall levels of public spending] is fairly limited. I think that is going to change over the period ahead and the website today will help.

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201 Budget 2006, Box 6.1, p 131
202 HC (2005–06) 994–I, para 67
203 Releasing the resources
204 Long-term opportunities and challenges
205 Ev 119
206 Ev 118
207 Q 3
208 Q 4
He also referred to the range of input the Government had received as part of its discussion on long-term challenges and opportunities and to the panel to work alongside the Prime Minister’s working groups leading to the “people’s summit” in March 2007.²⁰⁹

99. The website to which the Chief Secretary referred invites individuals to have their say about the Comprehensive Spending Review. The website sets out six questions on which the Government wishes to hear views:

- “What are the key opportunities and challenges facing the country in the decade ahead, and how should we respond to them?
- How can we ensure public services equip individuals to meet these challenges?
- What role do citizens and businesses have to play, and how can the state support and encourage changes in behaviour which deliver better outcomes for individuals and society as a whole?
- What is the role of local communities in responding to the challenges ahead, and what can be done to support them?
- How would you like to be engaged in the delivery of public services in your local area?
- What is the best way to secure the international cooperation necessary to make progress on key global challenges, such as climate change and international terrorism?”²¹⁰

There is an opportunity for an individual to submit comments, but it is not immediately clear from the website how interactivity extends beyond the opportunity to make discrete submissions. The questions on the website are broad in nature, and their relevance to decisions to be taken in the Comprehensive Spending Review is not always immediately clear. The content of the website remained essentially unchanged between January and May 2007.

100. The Government has been too timid in taking forward the national debate on the Comprehensive Spending Review to which it committed itself as long ago as March 2006. If a genuine debate is to take place, the Government must take the risk of putting in the public domain clear indications of some of the decisions it is considering taking, including those areas to which the Government proposes to accord a lower priority in the forthcoming Spending Review. It must also seek to engage the public in the debate about spending priorities.

The role of the House of Commons and its select committees

101. In our Report on the 2005 Pre-Budget Report which followed the Government’s announcement that there would be a Comprehensive Spending Review in 2007 rather than a Spending Review in 2006, we welcomed the Government’s commitment to a two-stage
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process, with a report on spending challenges published in 2006. We recommended that that report be framed so as to maximise opportunities for discussion within the House of Commons and consideration by its select committees on the spending options and challenges before final decisions were announced in 2007.\footnote{HC (2005–06) 739, para 70} Following the launching of the national debate in the 2006 Budget, we drew attention to the fact that the announcement made no reference to Parliament. We were assured at that time by Treasury officials that “we and Ministers always take Parliament into account”.\footnote{HC (2005–06) 994–I, para 68}

102. At the time of the 2004 Spending Review, the then Treasury Committee received a firm undertaking from Mr Nick Macpherson, then Managing Director, Public Services at the Treasury and now Permanent Secretary, to consult the Treasury Committee about the specification and measurement of Public Service Agreement targets.\footnote{HC (2003–04) 906–i and ii, Q 252} During the present inquiry, the Chief Secretary indicated that select committees would be “central” to the consultation process in relation to Delivery Agreements and would have “a very important role”.\footnote{Ev 121; Qq 16, 130} The Chief Secretary made no reference to the involvement of select committees with regard to either Public Service Agreements themselves or the new Departmental Strategic Objectives.\footnote{On which see paragraph 92.} We are concerned that the Treasury has yet to take any action to honour its commitment made in 2004 to consult this Committee about its proposed Public Service Agreement targets. \textbf{We recommend that the Treasury, no later than mid-July 2007, send this Committee a draft of each proposed new Public Service Agreement for which it has direct responsibility for delivery, explaining its thinking in relation to each Public Service Agreement providing further information about the proposed data to be used for measuring progress against targets in each Agreement and seeking this Committee’s views.}

103. With regard to the role of select committees more generally, we are concerned at the emphasis that the Chief Secretary appeared to put upon consultation with select committees about Delivery Agreements. While these documents will be of undoubted importance, they seem likely to flow from decisions about Public Service Agreements that will already have been taken. \textbf{We recommend that each Government department consult the relevant select committee or select committees of the House of Commons about both proposed new Public Service Agreements for which that department will have lead responsibility and about Departmental Strategic Objectives. We further recommend that the process of consultation be started by each department sending drafts of those documents with accompanying commentaries no later than mid-July 2007.}

104. Select committees ought to be informed not only about the evolving performance framework for the Comprehensive Spending Review but also about the financial considerations that underpin them. We would not expect departments to be in a position to disclose in advance the likely scale of final settlements. However, the Comprehensive Spending Review is intended to be a zero-based exercise which, in the Treasury’s words, “provides an important opportunity—with many past objectives achieved and supporting

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\footnote{HC (2005–06) 739, para 70} \footnote{HC (2005–06) 994–I, para 68} \footnote{HC (2003–04) 906–i and ii, Q 252} \footnote{Ev 121; Qq 16, 130} \footnote{On which see paragraph 92.}
programmes and spending potentially available for reallocation—for a more fundamental review of the balance and pattern of expenditure within and across departments”.\textsuperscript{216} \textbf{We recommend that each Government department inform the relevant select committee or select committees of the House of Commons no later than mid-July about the Government’s emerging views on those past objectives which have been achieved and those supporting programmes from which spending is potentially available for reallocation.}

\section*{Reporting}

105. As we noted above, a distinguishing feature of the current year’s Spending Review has been the range and number of settlements that have been announced in advance of the final outcome.\textsuperscript{217} There has been a marked variation in the quality of the information provided about these settlements. At one end, the Department for Education and Skills settlement includes full figures on Departmental Expenditure Limits up to 2010–11.\textsuperscript{218} At the other end, the Home Office settlement was announced in a single sentence in the 2006 Budget statement with no additional information in the Red Book.\textsuperscript{219} \textbf{We recommend that, before mid-July 2007, the Treasury provide to this Committee and make publicly available a full list of the early settlements agreed as part of the 2007 Comprehensive Spending Review, including in each case the baseline figure for 2007–08 that will be used for determining subsequent increases or reductions expressed in percentage terms and, where appropriate, an indication of the consequences for those early settlements of any subsequent machinery of Government changes.}

106. In his 2007 Budget statement, the Chancellor of the Exchequer talked about the additional expenditure available for allocation in the Comprehensive Spending Review as a result of the combined effect of the reductions in administration budgets, of the early spending settlements for certain departments incorporating a real terms reduction in expenditure and of the new targets for 3\% efficiency savings:

\begin{quote}
I have agreed with Departments savings in administrative costs worth £1 billion a year by 2011, which will also release money for front-line services. The same front-line services will benefit from below-inflation spending review settlements for the Department for Work and Pensions, Her Majesty’s Revenue and Customs, the Cabinet Office, the Treasury, the Department for Constitutional Affairs and the Attorney-General’s Department. That will release for front-line services £2 billion, and with efficiency savings of 3\% a year, we release, in total, £26 billion a year by 2010 for front-line services.\textsuperscript{220}
\end{quote}

He went on to say:

\begin{flushleft}
\textsuperscript{216} Releasing the resources, para 3.14, p 24
\textsuperscript{217} See paragraph 11.
\textsuperscript{218} Budget 2007, Table 6.3, p 157
\textsuperscript{219} HC (2005–06) 994–I, para 66
\textsuperscript{220} HC Deb, 21 March 2007, cols 817–818
\end{flushleft}
Just over a decade ago, when unemployment and debt were high and as much as three quarters of all new public spending went to pay for debt and social security costs, it left only one quarter of new spending for health, education, transport, defence and policing. But because of our success in cutting debt by a quarter and claimant count unemployment by a half, those front-line services will, in the coming spending round, receive not 25% of all new spending as in the past, but 75% of all new spending. In this new spending round, our aim has also been—in line with the Gershon report and with continuing reform—to ensure that resources for improving the front-line services, our service priorities, will continue to grow at the 4 to 4.5% yearly rate of this spending round.221

107. Professor Talbot observed that “it is unclear how front-line services are defined in relation to both redistribution of money and redistribution of personnel, and it would be interesting to see what those definitions are.”222 In the context of staff reallocations to front-line roles, the National Audit Office observed in February 2007 that “there is also no overall agreed definition of what constitutes a ‘front-line’ role”.223 Treasury officials suggested to us in March that the term “front-line services” was used to refer to all departmental expenditure, as opposed to expenditure on social security and debt interest.224 In the Gershon review in 2004, the term “front-line” was used to distinguish expenditure directly involved in the provision of services to the public from expenditure on administration within departmental budgets.225 In his oral evidence to us on the 2007 Budget, the Chancellor of the Exchequer made a similar point to that he had made in his Budget statement, namely that, in 1994–95, 75% of all new expenditure has been committed to debt interest and unemployment, whereas “75% or so of most new public expenditure is actually going to health, education, transport, infrastructure and investment in our future”.226

108. The Government, in its accounts of public spending, appears to use the term “front-line” in three different contexts—to refer to expenditure within Departmental Expenditure Limits as opposed to that within Annually Managed Expenditure or to certain components of Annually Managed Expenditure, to distinguish spending on services to the public from expenditure within administration budgets, and to distinguish spending on high priorities relating to investment broadly understood from lower priority expenditure. Each of these concepts are legitimate distinctions to make, but the varying use of the term “front-line” blurs rather than illuminates these distinctions. We recommend that the Government, in reporting the outcome of the Comprehensive Spending Review, adopt a single and consistent use of the term “front-line”.

221 HC Deb, 21 March 2007, col 818
222 HC (2006–07) 389–II, Q 103
223 HC (2006–07) 156–I, Executive Summary, para 10, p 6
224 HC (2006–07) 389–II, Q 208
225 Releasing resources to the front line, paras 2.2–2.3, p 10
226 HC (2006–07) 389–II, Q 295
Parliamentary authorisation

109. On at least three occasions each year the House of Commons is required to authorise public spending on the basis of Estimates and Supplementary Estimates. The figures presented on such occasions are not easy to reconcile with the more politically important totals established in Spending Reviews, and subsequently revised. Although most spending within Total Managed Expenditure is subject to formal authorisation arising from proceedings in the House of Commons, a significant proportion is not. Equally, some spending requiring parliamentary authorisation does not form part of Total Managed Expenditure. Overall, Total Managed Expenditure is significantly larger than total spending for which authorisation is sought from the House of Commons through Estimates.227

110. The disjunction between the amounts that the House of Commons is formally expected to authorise and the totals to be set out in the Comprehensive Spending Review that will form the centrepiece of the political process of resource allocation in the current Parliament does little to enhance understanding of the role of the House of Commons in financial scrutiny and authorisation. We accept that the differences between the two processes are of long-standing and are accounted for by several considerations of long-standing. We do not expect a remedy within the timescale of the Comprehensive Spending Review now underway. However, the Government and the House of Commons should aspire to such a remedy in the longer term. We recommend that the Government set itself the ambition to replace the current system of authorisation based primarily on Estimates with one linked more clearly with the public expenditure planning and control system, so that the House of Commons would eventually be in a position to consider and, should it so choose, authorise Departmental Expenditure Limits and an annual total for Annually Managed Expenditure, giving greater relevance to subsequent consideration of expenditure in excess of such limits requiring subsequent approval. We further recommend that the Government commit itself to working with select committees of the House of Commons, the National Audit Office and other interested parties to improve the clarity, consistency and comprehensibility of the documents placed before the House of Commons to seek authorisation for expenditure and to report on that expenditure.

The future of the public expenditure planning and control system

111. The 2007 Comprehensive Spending Review represents a departure from the previous two-yearly pattern of Spending Reviews under the new system for planning and control of public expenditure which was put in place in 1998 with effect from 1999–2000. The Chief Secretary indicated that no decision had been reached as to whether the two yearly pattern would resume with another Spending Review in 2009, or whether the 2007 Review marked a change to a three-yearly system.228 A decision on that matter has a significant effect on perceptions of the 2007 settlement, not least because that decision affects whether the “firm” figures for 2010–11 will be viewed as final. We recommend that, in announcing

227 Erskine May, 23rd edition, p 859
228 Q 14
the outcome of the 2007 Comprehensive Spending Review, the Government clarify whether the subsequent Spending Review will take place in 2009 or 2010.
Conclusions and recommendations

The evolution of the 2007 Spending Review

1. The decision to announce the outcome of the 2007 Comprehensive Spending Review in the autumn—and almost certainly in October—offers potential benefits to the House of Commons. An announcement in mid-July is not conducive to timely and effective parliamentary scrutiny. However, the benefits of an autumn announcement will be reduced if inadequate notice is given of the date of the announcement. We recommend that a final date for the announcement of the outcome of the 2007 Comprehensive Spending Review be set and made public before the Summer Recess. We recommend that the outcome itself be announced when Parliament is sitting and not during a recess. (Paragraph 9)

2. We recommend that the Government hold a debate in Government time in the House of Commons on the outcome of the Comprehensive Spending Review. We further recommend that such a debate be held at least one month after the announcement itself, to allow time for initial scrutiny by this Committee and others to inform the subsequent debate. (Paragraph 10)

The context

3. Public spending is projected to rise in real terms during the period covered by the current Comprehensive Spending Review as a whole at half the rate of growth provided for during the period covered by the four preceding Spending Reviews taken together. (Paragraph 21)

4. The forecasts for Annually Managed Expenditure up to 2010–11 set out when the final outcome of the 2007 Comprehensive Spending Review is announced will be crucial in determining the total amount of resources available within Departmental Expenditure Limits for allocation among departments consistent with the Total Managed Expenditure ceilings established in the 2007 Budget. In recent years, outturns for Annually Managed Expenditure have exceeded initial forecasts, and the initial forecasts for 2006–07 and 2007–08 made at the time of the 2004 Spending Review may prove over-optimistic. We recommend that the Government ensure an appropriate margin of caution in its equivalent forecasts in the 2007 Comprehensive Spending Review for the period up to 2010–11. (Paragraph 28)

5. In the periods covered by earlier Spending Reviews, initial limits on spending within Departmental Expenditure Limits have been subject to subsequent upward revision. In some cases, this has been as a result of the use of the flexibility offered within the fiscal framework. In the period to be covered by this Comprehensive Spending Review, the Government’s freedom to increase such public expenditure beyond initial allocations while continuing to comply with its fiscal rules is likely to be more constrained than has been the case during much of the last decade. (Paragraph 35)

6. In view of the long gestation period of the Comprehensive Spending Review and the extent to which the Government has sought to promote debate on and analysis of
long-term challenges, the Government could have provided more information on the likely impact of net migration on demand for public services over the period covered by the Comprehensive Spending Review. We note the Government’s implied view that the overall fiscal effect of net inward migration will be positive over this period, with benefits in terms of revenue receipts outweighing the costs of additional public expenditure. However, public spending and tax receipts are different in kind. Increases in receipts are a matter for Treasury forecasting. Public expenditure is subject to firm limits, and must be planned for by Government departments, local authorities, health bodies and others. We recommend that, in advance of the final outcome of the Comprehensive Spending Review, the Treasury commission an analysis of the impact of net migration on demand for individual public services, to be published as part of the final announcement on the outcome. (Paragraph 42)

The allocation of spending between departments

7. The value of early spending settlements on a departmental basis for the Home Office and the Departmental for Constitutional Affairs may be diminished as a result of the subsequent decision to transfer some Home Office functions to a new Ministry of Justice. The original spending settlement for the Home Office with zero real terms growth may well have been posited in part on the potential for savings within the National Offender Management Service and the Criminal Justice System IT programme, matters which are no longer the responsibility of the Home Office. A recent Ministerial statement could be interpreted as implying that the financial settlements for the Home Office and the Department for Constitutional Affairs might now be re-opened. We recommend that the Government clarify its funding intentions with regard to the Home Office and the Ministry of Justice at an early stage and in advance of the final outcome of the Comprehensive Spending Review, stating clearly whether the new Departments will be bound by the combined totals agreed by the Home Office and the Department for Constitutional Affairs and providing a breakdown of the expenditure allocation between the Departments. (Paragraph 49)

8. We recommend that the Government make clear the relationship between the budget of the Department for International Development and total official development assistance and that it provide a clear statement of its calculation of official development assistance and quarterly statements tracking its growth. (Paragraph 53)

9. With the exception of the Department for Education and Skills, the early settlements have tended to be reached by departments which fared less well in the last Spending Review and so may have entered the current process with lower expectations. This suggests that many of the most challenging settlements lie ahead. Furthermore, all departments that have so far agreed settlements have done so at levels significantly below the rates of growth provided for in the 2004 Spending Review settlements. (Paragraph 58)

10. The level of the resources available to be allocated to most of the departments that have not reached early settlements depends on three key variables: first, the rate of
increase in health spending; second, the prospective rate of increase of Annually Managed Expenditure; and, third, the number of additional larger departments that agree settlements with real terms reductions in spending. (Paragraph 59)

Embedding efficiency

11. The Government has set out targets for a highly ambitious value for money programme for the period covered by the Comprehensive Spending Review. The targets set for the period covered by the 2004 Spending Review were varied to reflect an assessment by Sir Peter Gershon of each department’s capacity to secure efficiency savings. The Government is now adopting a different approach, imposing a minimum requirement to meet an annual target of savings of 3% of total departmental budget on an across-the-board basis for all departments. (Paragraph 71)

12. We note the Government’s decision to require all savings during the period from 2008–09 to 2010–11 to be net of implementation costs and cash-releasing. We expect the Government to put in place measures to ensure that this is reflected in the framework for verification and reporting. In particular, we recommend that the Government clarify, at the time the final outcome of the Comprehensive Spending Review is announced, the reporting requirements relating to implementation costs, indicating whether standard accounting conventions will be used for identifying and distributing such costs. (Paragraph 72)

13. The Gershon efficiency programme involved a government agency outside the Treasury mainstream in supporting and monitoring the programme and involved efficiency savings which did not need to show on the bottom line. There are signs of a reversion to a more traditional Treasury approach in the future, with efficiency matters being part of “routine departmental financial management” overseen by the Treasury’s Public Spending Directorate, and with all efficiency savings intended to be cash-releasing. (Paragraph 77)

14. Even though the Government has established the principle that all efficiency savings from 2008–09 onwards should be cash-releasing, we are not convinced that monitoring and support from within the Treasury will be sufficient. We recommend that the Government ensure that a clearer performance measurement framework is established for the efficiency programme from 2008–09 onwards, including a greater role for external audit of service quality than hitherto. We further recommend that the Government ensure that a coherent framework for the verification and reporting of savings on a consistent basis is established as part of the post-2008 programme and that the Government set out the details of such a framework in publishing the final outcome of the Comprehensive Spending Review. We consider it essential that these arrangements include regular summaries of departmental achievements against targets in each Budget and Pre-Budget Report. (Paragraph 78)

15. We remain to be convinced about the value of further, explicit targets for reductions in Civil Service numbers for the period covered by the Comprehensive Spending Review. The Government’s highly ambitious target for reductions in all departmental administration budgets of 5% a year in real terms over the period from
2008–09 to 2010–11 is likely to exert downward pressure on Civil Service numbers. A separate target for Civil Service reductions runs the risk of distorting the efficiency programme, encouraging the replacement of civil servants with external consultants who may prove more expensive. If further targets for reductions in Civil Service numbers are adopted, we recommend that such targets be set with a clear and consistent baseline and that progress against targets be measured using statistics on Civil Service numbers compiled by the Office for National Statistics from 1 April 2008 onwards. We further recommend that any such targets be based solely on actual numbers serving in each department, so that re-allocations to “front-line” posts and increases related to what are classified as policy measures, both of which are open to subjective interpretation, are not treated as relevant to the performance against targets. (Paragraph 87)

Public Service Agreements and beyond

16. We welcome signs that the Government is seeking to learn lessons from the operation of the framework of Public Service Agreements in the years since 1998. In particular, we welcome the commitment to fewer, but better Public Service Agreements. The proposed reduction must be genuine; its value would be undermined if new Agreements simply brought together diverse topics within a single Public Service Agreement or if a reduction in the number of Public Service Agreements did not lead to a matching reduction in targets down the delivery chain. We are also concerned that some of the data measurement issues relating to targets seem unresolved, and we recommend that, in finalising Public Service Agreements, the Government has regard to the importance of ensuring that targets are measurable, that there is clarity about the methods of measurement and that data used for measurement is of adequate quality. We further recommend that the Government set out, in a single document, a public statement of how the Public Service Agreements, the Delivery Agreements and the Departmental Strategic Objectives fit together and form a coherent framework for enhancing the performance of Government departments and of public services. (Paragraph 95)

The national debate and the role of Parliament

17. The Government has been too timid in taking forward the national debate on the Comprehensive Spending Review to which it committed itself as long ago as March 2006. If a genuine debate is to take place, the Government must take the risk of putting in the public domain clear indications of some of the decisions it is considering taking, including those areas to which the Government proposes to accord a lower priority in the forthcoming Spending Review. It must also seek to engage the public in the debate about spending priorities. (Paragraph 100)

18. We recommend that the Treasury, no later than mid-July 2007, send this Committee a draft of each proposed new Public Service Agreement for which it has direct responsibility for delivery, explaining its thinking in relation to each Public Service Agreement providing further information about the proposed data to be used for measuring progress against targets in each Agreement and seeking this Committee’s views. (Paragraph 102)
19. We recommend that each Government department consult the relevant select committee or select committees of the House of Commons about both proposed new Public Service Agreements for which that department will have lead responsibility and about Departmental Strategic Objectives. We further recommend that the process of consultation be started by each department sending drafts of those documents with accompanying commentaries no later than mid-July 2007. (Paragraph 103)

20. We recommend that each Government department inform the relevant select committee or select committees of the House of Commons no later than mid-July about the Government’s emerging views on those past objectives which have been achieved and those supporting programmes from which spending is potentially available for reallocation. (Paragraph 104)

21. We recommend that, before mid-July 2007, the Treasury provide to this Committee and make publicly available a full list of the early settlements agreed as part of the 2007 Comprehensive Spending Review, including in each case the baseline figure for 2007–08 that will be used for determining subsequent increases or reductions expressed in percentage terms and, where appropriate, an indication of the consequences for those early settlements of any subsequent machinery of Government changes. (Paragraph 105)

22. The Government, in its accounts of public spending, appears to use the term “front-line” in three different contexts—to refer to expenditure within Departmental Expenditure Limits as opposed to that within Annually Managed Expenditure or to certain components of Annually Managed Expenditure, to distinguish spending on services to the public from expenditure within administration budgets, and to distinguish spending on high priorities relating to investment broadly understood from lower priority expenditure. Each of these concepts are legitimate distinctions to make, but the varying use of the term “front-line” blurs rather than illuminates these distinctions. We recommend that the Government, in reporting the outcome of the Comprehensive Spending Review, adopt a single and consistent use of the term “front-line”. (Paragraph 108)

23. We recommend that the Government set itself the ambition to replace the current system of authorisation based primarily on Estimates with one linked more clearly with the public expenditure planning and control system, so that the House of Commons would eventually be in a position to consider and, should it so choose, authorise Departmental Expenditure Limits and an annual total for Annually Managed Expenditure, giving greater relevance to subsequent consideration of expenditure in excess of such limits requiring subsequent approval. We further recommend that the Government commit itself to working with select committees of the House of Commons, the National Audit Office and other interested parties to improve the clarity, consistency and comprehensibility of the documents placed before the House of Commons to seek authorisation for expenditure and to report on that expenditure. (Paragraph 110)
24. We recommend that, in announcing the outcome of the 2007 Comprehensive Spending Review, the Government clarify whether the subsequent Spending Review will take place in 2009 or 2010. (Paragraph 111)
Formal minutes

Thursday 14 June 2007

Members present:
John McFall, in the Chair

Mr Colin Breed
Angela Eagle
Mr Michael Fallon
Ms Sally Keeble
Mr Andrew Love
Mr George Mudie
Mr Brooks Newmark
Mr Siôn Simon
John Thurso
Mr Mark Todd
Peter Viggers

The 2007 Comprehensive Spending Review: prospects and processes

The Committee considered this matter.

Draft Report (The 2007 Comprehensive Spending Review: prospects and processes), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraph 1 read, amended and agreed to.
Paragraphs 2 and 3 read and agreed to.
Paragraph 4 read, amended and agreed to.
Paragraph 5 read and agreed to.
Paragraph 6 read, amended and agreed to.
Paragraphs 7 and 8 read and agreed to.
Paragraphs 9 and 10 read, amended and agreed to.
Paragraphs 11 to 16 read and agreed to.
Paragraph 17 read, amended and agreed to.
Paragraph 18 read and agreed to.
Paragraph 19 read, amended and agreed to.
Paragraph 20 read and agreed to.
Paragraphs 21 and 22 read, amended and agreed to.
Paragraph 23 read and agreed to.
Paragraphs 24 and 25 read, amended and agreed to.
Paragraphs 26 to 31 read and agreed to.
Paragraphs 32 to 35 read, amended and agreed to.
Paragraph 36 read and agreed to.
Paragraphs 37 and 38 read, amended and agreed to.
Paragraphs 39 to 41 read and agreed to.
Paragraph 42 read, amended and agreed to.
Paragraphs 43 and 44 read and agreed to.
Paragraph 45 read, amended and agreed to.
Paragraph 46 read and agreed to.
Paragraph 47 read, amended and agreed to.
Paragraphs 48 to 50 read and agreed to.
Paragraph 51 read, amended and agreed to.
Paragraph 52 read and agreed to.
Paragraphs 53 and 54 read, amended and agreed to.
Paragraph 55 read and agreed to.
Paragraphs 56 and 57 read, amended and agreed to.
Paragraphs 58 to 65 read and agreed to.
Paragraph 66 read, amended and agreed to.
Paragraphs 67 and 68 read and agreed to.
Paragraph 69 read, amended and agreed to.
Paragraph 70 read and agreed to.
Paragraph 71 read, amended and agreed to.
Paragraphs 72 to 76 read and agreed to.
Paragraphs 77 to 81 read, amended and agreed to.
Paragraphs 82 and 83 read and agreed to.
Paragraphs 84 to 85 read, amended and agreed to.
Paragraph 86 read and agreed to.
Paragraph 87 read, amended and agreed to.
Paragraphs 88 to 99 read and agreed to
Paragraph 100 read, amended and agreed to.
Paragraph 101 read and agreed to.
Paragraph 102 read, amended and agreed to.
Paragraphs 103 and 104 read and agreed to.
Paragraph 105 read, amended and agreed to.
Paragraph 106 read and agreed to.
Paragraph 107 read, amended and agreed to
Paragraphs 108 and 109 read and agreed to.
Paragraph 110 read, amended and agreed to
Summary read and agreed to.

Resolved, That the Report, as amended be the Sixth Report of the Committee to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134 (Select committee (reports)).

Ordered, That the Chairman make the Report to the House

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

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[Adjourned till Tuesday 19 June at 9.30 am.]
Witnesses

Tuesday 30 January 2007

Rt Hon Stephen Timms MP, Chief Secretary to the Treasury, Ms Sarah Mullen, Joint Director Public Spending, Mr Paul Johnson, Director Public Services, and Mr Richard Hughes, Spending Review Team Leader, HM Treasury

List of written evidence

1. London First
2. RSPB
3. I CAN
4. Health Foundation
5. London Borough of Barking and Dagenham
6. The Institution of Engineering and Technology
7. A4e Ltd
8. SIGOMA
9. Age Concern England
10. SPARKS Environment and Planning, London Councils
11. Milton Keynes Council
12. SBAC
13. Kent County Council
14. GLA Economics
15. EEF
16. Public and Commercial Services Union (PCS)
17. Royal College of Nursing (RCN)
18. Norwich Union
19. Child Poverty Action Group
20. England’s Regional Development Agencies (RDAs)
21. Association of British Healthcare Industries
22. NSPCC
23. NSPCC/ University of York/ Frank Buttle Trust
24. Local Government Association
25. Professor David Heald, University of Sheffield
26. Letter from HM Treasury to the Treasury Committee
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Oral evidence

Taken before the Treasury Committee

on Tuesday 30 January 2007

Members present
John McFall, in the Chair

Mr Colin Breed
Jim Cousins
Mr Michael Fallon
Mr David Gauke
Mr Andrew Love
Kerry McCarthy

Mr George Mudie
Mr Brooks Newmark
John Thurso
Mr Mark Todd
Peter Viggers

Witnesses: Rt Hon Stephen Timms MP, Chief Secretary to the Treasury, Ms Sarah Mullen, Joint Director Public Spending, Mr Paul Johnson, Director Public Services, and Mr Richard Hughes, Spending Review Team Leader, HM Treasury, gave evidence.

Q1 Chairman: Minister, welcome to you and your team on the Comprehensive Spending Review. Thank you for your letter to me in which you fondly remember your time in this Committee. I hope you enjoy it as much this morning. Would you introduce your team for us, please?

Mr Timms: Yes. Thank you, Chairman, for your welcome. The officials who are with me today are Sarah Mullen, on my right, the Director of Public Spending at the Treasury; next to her, Paul Johnson, the Chief Micro-Economist, and on my left Richard Hughes, who is Head of the CSR team.

Q2 Chairman: Welcome. The planning assumptions for spending in the period to be covered by the CSR suggest that the years of plenty are at an end. Do you think that the Government, public services and the public are prepared for a slow down in the rate of growth of public expenditure over the next few years?

Mr Timms: I wonder if you would allow me to add some opening remarks first of all and comment on that point in particular when I do so. If you look at our first Comprehensive Spending Review in 1998, I think what that did was to lay the foundations for the modernisation of the public spending and performance management framework—introducing three-year budgets, public service agreements and refocusing resources on the then new Government’s priority areas like health, education and transport. Ten years on, our intention is for another equally comprehensive review, setting out detailed three-year departmental spending plans, but within this longer term context of looking 10 years ahead. We set out last year what we see as the five big long-term challenges and we published the long-term challenges document last year setting out our analysis of those. The position in 1997 was that there was a backlog of under-investment and under-funding to put right, and we have put that right. The CSR is going to be building on the longest sustained increase in public spending we have seen since World War Two. Since 1997 NHS spending has doubled in real terms, reducing mortality rates, reducing hospital waiting times dramatically. Total spending on education is 60% higher rising from one of the lowest amounts per capita in the industrialised world to amongst the highest. And in the three years of the current spending review period, average annual real growth of total managed expenditure is 3.5%. In the previous period it was 4.8%. Coming now to your point, having corrected under-funding, there will continue in the future and in the CSR years to be real terms annual growth in spending but at a lower rate. The envelope for the Comprehensive Spending Review will be set in the Budget, but our spending projections in the Pre-Budget Report show average real growth of less than 2% in the CSR years. So, that is quite a significant change, a change of trajectory, that will present us with some challenges. What we are going to do in the CSR is to consolidate the record uplift in spending of the past decade and also address these big long-term challenges in the future. One of the keys to doing this successfully is going to be to deepen the efficiency programme we have been pursuing in the current period, following the recommendations of Sir Peter Gershon. We are taking forward zero-based reviews of baseline expenditure and each department will, in the CSR years, achieve at least 3% annual savings, with at least 5% annual real reductions in administration budgets so we can provide more resources to frontline priorities. I think what we are seeing is rapid change, new challenges emerging. What we have to do in the CSR in this, as you say, more constrained environment that is ahead is to equip every citizen to make the most of the opportunities which come with those changes, and I am very optimistic about our prospects of being able to do that successfully.

Q3 Chairman: I am not very sure that people are prepared for it, the public and others.

Mr Timms: Well, we are launching today, actually, an interactive website on the CSR to solicit the views of the public on these challenges.
Q4 Mr Newmark: Will it be censored?
Mr Timms: Because we are very keen to solicit those, and I think, in the discussions there will be over the next few months leading up to the announcements in the spending review, there will be a gradually increasing awareness of what the envelope is going to be and, of course, the changes themselves will take effect from April of next year. I think you are probably right that at the moment the level of knowledge of the likely changes is fairly limited I think that is going to change over the period ahead and the website today will help.

Q5 Chairman: You are not prepared, and this is step one today and step one is an interactive website.
Mr Timms: No. There has been lots of discussion before today, but I think the website will be helpful, particularly in reaching ordinary members of the public.

Q6 Chairman: The period of tough limits on spending within departmental expenditure limits between 1997 and 2000 coincided with reductions in some elements of annually managed expenditure, such as debt interest payments and expenditure on unemployment benefit. Do you accept that there is likely to be upward pressure on annually managed expenditure in the period to be covered by the CSR, for example in relation to debt interest payments?
Mr Timms: We will produce our forecast for annually managed expenditure at the CSR when the spending plans are set, and that is part of the normal spending review process. You are right that the AME spending has historically grown slower than DEL, and that has helped to release resources, particularly from falling debt interest and reduced social security spending for investment in public services. From 1997 up to the end of the current spending review period social benefit spending has been broadly flat, in real terms half a per cent real growth, debt interest has fallen by an average of 2.5% in that year. Looking forward, I am hopeful about the prospects. At the moment we are seeing the unemployment claimant count falling (it has fallen, I think, three months in a row now) and we are starting to see inroads into the very longstanding issue of incapacity benefits, thanks to the Pathways Programme—we have started to see reductions there—and so, looking at the CSR period and the prospects for AME spending, I think we are going to be in good shape.

Q7 Chairman: The Chancellor of the Exchequer told us at the Committee in December that the results of the CSR would be announced “in the course of the next year”. Can you be more specific about the timetable?
Mr Timms: No, we have not yet set a date.

Q8 Chairman: Is that not a bit remiss?
Mr Timms: No. I do not think so. The Chancellor said that we will set out the—

Q9 Chairman: Can you give us an idea, a ball park figure?

Mr Timms: Clearly what is needed is for departments to have the details in good time for the start of the financial year 2008/2009, and we will make sure that is done.

Q10 Chairman: If I remember correctly, the Chancellor referred to the summer. Do you think you will reach that target?
Mr Timms: It may well do. It needs really to be by October in order that departments have the details they need for putting in place their arrangements for the new financial year.

Mr Timms: Talking about the summer, does the Government attach importance to parliamentary scrutiny in determining the timing of the announcement of the CSR? For example, do you accept that July is not the best month for publication in the context of parliamentary scrutiny, committees like us having to Chase about in the last few weeks. It is frantic and it is a dead month. If the Government is serious about parliamentary scrutiny, is there not a case for bringing that forward and ensuring that there is adequate preparatory time for that? You have been a member of this Committee and you realise how important it is for us.

Mr Timms: I have, but I would have thought, if there was an announcement in July, there would be adequate parliamentary scrutiny or the opportunity for that at least. As I recall from being on the Committee, the Committee continued its work into July and so I do not think July could be ruled out on that basis.

Q12 Chairman: We are talking about July. We are talking about going off after about three weeks. If we get it in July, the Committee and the staff scrabble about in the next few days. If we have it in the second week or maybe the last week before the recess, there is not time for a reflective approach on the CSR and then it is dead for the next few months.

Mr Timms: Discussion would not have to conclude before the end of July if there was an announcement in July, it could resume in the autumn. Indeed, there would be a good deal of work still needing to be done.

Q13 Chairman: It is a case of striking while the iron is hot. If you are going to produce it in July and then we are back in the autumn, three months has passed and the agenda has moved on. So, in terms of parliamentary scrutiny, Minister, I think there is a case for the Government taking back the comments that we make here and ensuring that we get adequate time for that.

Mr Timms: I will certainly take away any comments that the Committee makes, but I would not myself rule out July as a possibility.

Q14 Chairman: Has it been decided whether the Government will revert to a two-yearly spending cycle after 2007 with another spending review in 2009? If not, will you announce the decision on that matter when announcing the Comprehensive Spending Review?
Mr Timms: We have not yet taken a view on that. I think it would be reasonable to expect that may well be what happens, but, as yet, there has not been a firm decision.

Q15 Chairman: Last March the Chancellor promised a national debate about the priorities for the Comprehensive Spending Review. Did that go up in smoke?

Mr Timms: No, there has been lots of discussion since the Chancellor made that point last March. For example, in the work that went on behind the long-term challenges document, I think we involved about 200 different people and organisations in talking about that. There have been a lot of contributions to the separate policy reviews, the Young People’s Review, for example, the Leitch Review on skills. All of those and others have involved large numbers of people contributing.

Today I have mentioned the website that we have launched and, in addition, of course, a panel of about 100 people is being put together to work alongside the Prime Minister’s working groups leading to a people’s summit in March. So, we have already solicited a lot of input, which has been very helpful, and we will continue to do that in the months ahead.

Q16 Chairman: What form do you expect the debate to take in the next few months, particularly in relation to select committees, because it is not only this select committee that should have a partner, it is departmental select committees?

Mr Timms: I think there is going to be a very important role for select committees, in particular looking at the delivery plans which will need to accompany each of the public service agreements. We will attach a high degree of importance to consulting with service users and others about the detail of those plans, and I envisage a particularly important role for select committees in that work.

Q17 Mr Mudie: If you got your 2.5% across departments and your 5% admin savings, how much would that deliver?

Mr Timms: The figures that the Chancellor gave at the Pre-Budget Report were 3% annual value for money and 5% on admin, and I think, if I remember rightly, that adds up to about £26 billion over the CSR period.

Q18 Mr Mudie: It is not 26 annual, because it is badly worded, it is 26 in total over the period?

Mr Timms: It mounts up, I think I am right in saying, to 26 billion by the end of the CSR period.

Q19 Mr Newmark: I have listened to you for five minutes and I want to sum-up where we are, if I can. What you are going to have is a consultation for an interactive website, followed by a people’s summit, and then we are going to get a review that is going to be announced but we are not sure whether it is going to be July or October. Is that where we are?

Mr Timms: No. I think that is a rather incomplete summary. There has been a lot of discussion, as I have said, in the work on the long-term challenges, the work on the policy reviews, which is continuing. There are very large numbers of people involved in all of that, but the website will certainly help and the deliberative consultation leading up to the summit in March will be useful as well. We will then draw together all those strands of consultation and the other work that we have done and publish the results in the CSR White Paper.

Q20 Peter Viggers: I can summarise differently: the Chancellor walked out with prudence for about three years, he then dallied elsewhere and now we have to pay the bar bill! The Chancellor of the Exchequer wants efficiency savings of 3% for all departments. Will this not penalise efficient departments, because it will be easier for inefficient departments to make the 3% savings?

Mr Timms: No. I think what we have seen through the Gershon Efficiency Programme and analysis that we have been doing over the last few weeks is that there is a potential, through really building in a culture of efficiency, to achieve that level of value for money savings in each department over the CSR period and for that to be a minimum. There may well be departments—I hope there will be—who are able to go further in the CSR period and, in so doing, release resources that they can then apply to their priorities, but I am confident that each department will be able to achieve at least the 3% level, and I think that will be very important as part of achieving a successful CSR round.

Q21 Peter Viggers: Can we interpret that to mean that departments will be able to retain their cash savings?

Mr Timms: We will build into the CSR plans, when they are published, assumptions about each department having achieved at least the 3% level of savings, and that will be taken account of in announcing how much each department has to spend in each year of the CSR period; but, of course, if departments are able to go further and make additional savings (and it may well be during course of the CSR they will identify ways to do that), then, yes, they will be able to use those savings in ways that they decide.

Q22 Peter Viggers: The first thing I learnt at the Treasury was the Treasury does not distinguish between capital and income, which rather shocked me at the time. How can you really think that there is a real difference between administration budgets and programme budgets? Surely departments will simply shunt between the two to show savings in administration budgets rather than programme budgets?

Mr Timms: No. I do not think there is very much scope for that. There is recognition of what counts as administration budgets and what does not. We think it is important to do everything that we can to bear down on administration spending and to be more efficient, and I think we will be able to get to a
position where administration spending actually counts for the lowest proportion of spending than it has done for a very long time as a result of these changes and spend less on administration and so release more for priority areas, programmes and others, but it is not true that departments can willy-nilly change classifications; there is a recognition of what counts as administration and what does not.

Q23 Peter Viggers: May I focus on one area where there is widespread alarm, and that is defence. The aircraft-carrier orders have not come through yet. Can you give us an assurance that they are not being delayed for financial reasons?

Mr Timms: Yes, I am certainly not aware of any delays of that kind. As you will know, we have seen a series of significant increases in defence spending over the last few years after a period in which defence spending fell after the end of the Cold War. I have regular discussions with the Secretary of State and, indeed, the Minister of Defence Procurement and the budget for defence in the current period is set and I am satisfied that it is adequate for the needs of the department.

Q24 Peter Viggers: The Treasury has provided £1.2 billion for operations in Iraq, Afghanistan and the Balkans, but that is not enough to compensate the Ministry of Defence for the extra costs it has had to cover in terms of equipment damage and so on. There are very tight conditions in the Ministry of Defence. Will you be providing the money necessary to improve housing, for instance?

Mr Timms: Let me just remind you what the Secretary of State for Defence has said: “Every time we have gone to the Treasury for more money to support and protect our troops we have got it, as we showed in July last year when the Treasury approved £70 million to get new armoured vehicles quickly into Iraq and Afghanistan to protect our people against road-side bombs.” I think that accurately characterises the way that we have supported our forces in their current operations, and we are determined to continue to do so.

Q25 Peter Viggers: So, if serious concern has been expressed about some details of service persons’ conditions and the Department of Defence asks for more money to rectify these problems, the Treasury will be open to this?

Mr Timms: The Secretary of State has, I think, accurately described the way that we have responded to all of those approaches that we have received. In the current spending review period we are seeing average annual real terms growth of 1.4% a year, which means that the defence budget for next year will be £3.7 billion greater than it was in 2004/2005. I think our record on supporting our armed forces is a very good one, and we are determined to maintain it.

Q26 Mr Breed: Minister, looking at the differences between cost-effectiveness and value for money, last year you published a document in July about the CSR in which “value for money” was in its title. Do you view value for money, as defined, as the relationship between the resources consumed, inputs and outputs, and is that more important than efficiency, which is defined elsewhere as the ratio between the inputs and outputs? In other words, are we talking about real value for money or are we talking about cost-effectiveness? Because you can have cost-effectiveness without value for money, and vice versa?

Mr Timms: I am not sure I entirely see the distinction you are making.

Q27 Mr Breed: You can send more money sometimes and you can get much greater value from it, or you can actually reduce your costings, but, because you are not reducing the value of those, you can actually be worse off. Are we talking about real value for money or are we talking about cost-effectiveness?

Mr Timms: Let me describe what we have seen in the efficiency or value for money programme that we have been taking forward in the current spending review period. By the end of September departments had notch up £13.3 billion worth of annual efficiency gains against the target that we set of £21.5 billion worth by the end of the period. That has been achieved in part by significant workforce reductions (54,963 posts by last September) and also relocations of staff outside of London. I think, through those measures and others, we have been able to significantly improve the value for money that we have been providing and we want to build on those in the CSR period.

Q28 Mr Breed: Because a fewer number of people are doing the same amount of work as originally.

Mr Timms: Yes, and in some cases there are examples where they have been able to do more, and I think we will need to take that approach further in the CSR period as well.

Q29 Mr Breed: Why do you say it is important that targets are established for efficiency savings of 3% in overall budgets when departments are not required to demonstrate that such savings actually contribute to an overall value for money?

Mr Timms: I think what we have seen in the Gershon Programme is that having that target has been an effective means of galvanising departments and assisting them to produce big value for money savings which have helped to release resources for other priorities. I think it will be right to have the new targets that we have announced to maintain and, indeed, go further in that process in the CSR years. I think those targets have been very helpful and I think they will make a big contribution in the CSR period too.

Q30 Mr Breed: I would suggest that most of our colleagues in the House, when trying to pursue matters with DWP, CSA and many others, have found the quality of service which we have been getting has been gradually diminishing as staff have been paid off. So, I am not quite certain how we are
going to demonstrate that we are going to get the equivalent quality of service with a substantially reduced workforce.

**Mr Timms:** I do not agree with your characterisation of what has happened. This process has been very closely monitored by the Office of Government Commerce in collaboration with the National Audit Office. They have set very demanding measures of quality of service and they are tracking those to make sure that there is not a fall-off in service as a result of the implementation of the efficiency measures. I was a minister in DWP before taking up this role, and if you look at what has happened in the pension service, for example, there has been a very big reduction in the number of people employed in that service—I think, from memory, it was a 40% reduction over a couple of years—and, at the same time, customer feedback about the quality of the service being provided steadily rose; and I think it is possible both to take forward efficiency measures of the kind that we are doing and also to improve services, and that is what we have to do in the CSR period and I am confident that we will.

**Q31 Mr Breed:** Finally, I know that this is not your document but it has been sent to us by the Financial Secretary to the Treasury, but it does advise us about transforming government procurement. I think government procurement is probably at the heart of efficiencies if, in effect, you are going to drive out inefficiencies. Is that it.

**Mr Timms:** I have not got a copy in front of me.

**Q32 Mr Breed:** In the foreword I was particularly interested to read, in the second paragraph, that “increasing numbers of construction projects are completed on time and on budget and we are now driving out efficiencies from the management of the Government estate”. I am not quite certain why it is new government policy to drive out efficiencies if, in fact, everything is being done so well.

**Mr Timms:** What we are doing is improving efficiency across the Government estate. In fact later on we will be laying in the House a revised and updated edition of the National Asset Register, which we published for the first time some years ago. A new edition is being published today and that will assist us in managing the central government estate in as efficient a way as possible. We are determined to do that and that is the point that John Healey was making.

**Q33 Mr Breed:** I wondered whether it was a typographical error and should have been “inefficiencies” or whether it was some sort of comment upon more value for money: because, as I say, I think some efficiency savings, quite frankly, have not produced value for money and I think an overall cut in cost-cutting in a number of government areas has actually produced a lower value for money concept but has merely just cut the costs. Perhaps one of your officials would like to go back and see if that is, in fact, a typographical error.

**Mr Timms:** I do not think it is. I think the reference is to driving efficiency.

**Mr Breed:** It says “driving out efficiencies”?

**Chairman:** Grinding out efficiencies. Is that it.

**Q34 Jim Cousins:** Will there be any additional Civil Service relocation targets in the CSR on top of the ones we have had?

**Mr Timms:** We have not yet decided precisely what the targets, if there are any in that area, will look like. What we are determined to do is to build on the successful experience we have had with the Gershon Programme and, as you know, there is a target of 20,000 relocations out of London and the South East as part of the current programme. Whether there will be anything along those lines in the CSR, I am not in a position to say at this stage.

**Q35 Jim Cousins:** That is rather disappointing. Will the Pay and Workforce Plans which departments will prepare as part of the Comprehensive Spending Review be published and will they include references to regionally flexible pay?

**Mr Timms:** May I just comment on the point about local pay first of all? We are certainly committed to the introduction and development of local pay around the public sector. We think that is helpful and valuable, for a whole host of reasons. We have seen some benefits already and we think that those can be taken further. Pay that responds to local conditions we think is good for economic development around the country, it helps to provide flexibility and balanced growth in every region and can contribute to improving the quality of delivery of public services, so, certainly, I do envisage those arrangements being built into what will be happening in the CSR years. In terms of the content of the plans, perhaps I can ask one of my colleagues to comment on exactly what they might look like.

**Mr Johnson:** Each department is being asked to provide Pay and Workforce Plans.

**Q36 Jim Cousins:** Will they be published?

**Mr Johnson:** Probably not in their full content, because, of course, they will involve plans as to how they are going to negotiate with the unions, and so on, about the levels of pay and the levels of staff that they are having. In summary, perhaps a general sense of the way in which they want to direct, but there are no plans at the moment to put those in the public domain. Obviously, for the wider public sector, the evidence that they put to pay review bodies, where that is relevant, will be published as usual, which gives a very clear sense for those wider groups of the things that departments are thinking about, and they will be talking very openly to their unions when it comes to the Civil Service about what is there and what they are trying to achieve, but in terms of precise numbers of the pay they expect to be paying and the numbers of people they expect to be employing over the next three years, I would not expect all of that to be in the public domain.

**Q37 Jim Cousins:** Chief Secretary, I think that not publishing these things will add to the problems of the Government and not reduce them. Your policies involve the introduction of an incomes policy for the
public sector, involving the probability of real cuts in take-home pay over a four year period, massive changes in work practice and organisation or form and massive cuts in employment, 56,000 at HMRC and the Department of Work and Pensions alone. Is there any precedent in British history for such a policy towards the public sector workforce?

Mr Timms: First of all, I take issue with some of your characterisations of what is happening. We have said that we think it is important that pay settlements in the next period are consistent with our inflation target of 2%. We are expecting recommendations from the pay review bodies shortly, and we will obviously need to see what those recommendations are, but I do think it is very important that those settlements are consistent with the inflation target. I would not characterise that—

Q38 Jim Cousins: That is a four-year incomes policy. There is no precedent for such a thing?

Mr Timms: I would not characterise it in that way. There are two reasons why this is very important: one of them, of course, is about affordability of public services in the CSR period and I think it is important that we do not, through excessively high pay increases, reduce the numbers of people who can be employed in the public service—I think that would be very unfortunate—but the second consideration is the one that the Governor of the Bank of England was talking about last week, which is the danger of an inflationary spiral being set up which would be damaging for the economy as a whole; so I think it is important that the approach that the Chancellor has set out is adhered to. Has there been a precedent? I think it is probably true that the approach we are taking is the most ambitious, in terms of improving value for money, that we have seen in the UK. I notice that Keith Davis and the National Audit Office have made the point that “our view is that this programme (referring to the Gershon Efficiency Programme) is more serious and more systematic than previous attempts to achieve efficiency in government. We have seen real, serious, top level engagement in the programme across departments and in the centre of government” and I think that is right. It is an ambitious and serious programme to maximise the value of the contributions that tax-payers are making. I think that is absolutely right and we are determined to maintain that.

Q39 Jim Cousins: Your policies involve a deflationary spiral across the public sector. What does the public sector workforce get out of the massive organisational changes you have put in front of it? What does it get out of that: reduced take-home pay and the prospect of major losses of employment?

Mr Timms: Again, I would not accept your characterisation about reduced take-home pay. The expectation is that inflation will fall. The Bank of England, I think, is expecting it to fall quite quickly to the target level later on this year and we will need to see what happens. Achieving the guidelines that the Chancellor has set out, therefore, would not entail reductions in take-home pay, and, of course, there are arrangements for progression in the various public sector workforces which individuals will benefit from as well. What are people gaining? There has been a substantial increase in the number of people working in the public sector over the last decade. In my view, that has absolutely been right. We have needed to catch up on past under-investment and under-funding of public services, and we have done. We will lock in those improvements through the CSR years and people in the public sector can see that the quality of the services they are providing is substantially better now, as a result of the extra funding and other changes that we have made, than it was in the past, and I think that is very good for the satisfaction of people working in the public services.

Q40 Peter Viggers: The Chancellor of the Exchequer did two things in the 2006 Pre-Budget Report statement. The first thing was it talked about the National Asset Register—we look forward to seeing that later today—and said that the Government will be taking a zero-based approach to capital budgeting. At the same time, he announced the global figures for the next five years. He announced that the figures were going to increase by three billion a year—effectively, from 51 billion in 2008 to 60 billion in 2011. What is the logic behind the Chancellor of the Exchequer’s decision to set out the totals for public sector capital investment up to 2011/2012 in advance of the completion of the process of discussing what is needed?

Mr Timms: What we do in the Pre-Budget Report is set out projections for future spending, whether it is capital or resource. The details of the envelope will be set out at the time of the Budget.

Q41 Peter Viggers: Will the annual investment totals for individual departments up to 2011/2012 be included in the Comprehensive Spending Review?

Mr Timms: Yes, they will be.1

Q42 Peter Viggers: Will departments be required to publish new investment strategies at the time of the results of the Comprehensive Spending Review?

Mr Timms: Yes, they will.2

Q43 Peter Viggers: The Government states it is on track to meet its target and to dispose of £30 billion of surplus assets by 2010/11. What is this mainly, land?

Mr Timms: These are all fixed assets that the disposals target applies to; so certainly land, property, buildings—items of that kind.

1 Note from Witness: Capital DEL budgets for 2011–12 are not covered by the CSR period, which spans from 2008–09 to 2010–11.

2 Note from Witness: Departmental asset management strategies will be developed and finalised following the publication of CSR settlements and published in due course thereafter.
Q44 Peter Viggers: What is the value of the identified targets for disposal so far and how much has so far been achieved?
Mr Hughes: About £12 billion worth of disposal has been achieved since 2004 (that is 2004/2005 and then 2005/2006), so that is well on track to meet our target of £30 billion worth of disposals by 2010, and we expect to be able to sustain that rate throughout the forecast period.

Q45 Peter Viggers: What happens if you cannot sustain that rate and you cannot reach your target of 30 billion?
Mr Hughes: We are confident that we will meet it.

Q46 Peter Viggers: Will departmental asset management strategies be published department by department?
Mr Hughes: They will do. It may be a few months after the conclusion of the Spending Review because departments will be getting their budgets at that point; and then, thinking as to what they imply for their asset management practices may take some time. What we have done in the past is publish things called “departmental investment strategies” shortly after the conclusion of spending reviews. This time around we are keen to broaden the scope of those to include not just what departments are doing with their new investment, but what they are also doing to help get better value out of the asset bases that they retain and that they carry forward throughout, indeed, the next spending review period and also the period beyond that.

Q47 Mr Breed: The Institute of Fiscal Studies has estimated that in order to reach the UN target of 0.7% of gross national income to be spent on Official Development Assistance by 2013, international development expenditure will need to be increased by 10.5% a year in real terms during that period which is covered by the CSR. Is that the sort of estimate which compares with your own calculations?
Mr Timms: I have not studied what the IFS has said about this. What I can say is that we remain firmly committed to our objective of reaching the UN target for overseas development aid as a proportion of GNI. We will set out in the CSR how we will make progress towards our child poverty target. Whether it will involve that measure or not I cannot say at this stage, but the Department for Work and Pensions, as you will know, has been doing some interesting work recently on the child poverty strategy and they are looking at a range of ideas at the moment.

Q48 Mr Breed: So you are committed to the original target. Will the Department of International Development be subject to the same requirements as all the other departments to reduce its administration expenditure, and, if so, is it realistic to expect them to secure value for money, however we may interpret that, for development assistance within such constraints?
Mr Timms: Yes, DFID will be required to achieve the same level as other departments. I think from the point of view of the Secretary of State for International Development, who I have talked to about this, it is very important to him that he is able to show that his department is achieving a similar level of value for money improvement as others, because with a rising budget, as there is in that department, it is important to be able to show those resources are being well used.

Q49 Mr Breed: Finally, Minister, what assessment has the Treasury made of Save the Children’s call for seasonal grants at the toughest times of the year for the poorest families? Is it considering such a policy as part of its child poverty strategy?
Mr Timms: We are looking at a range of suggestions, and that is an interesting and helpful one, and we are keen to solicit ideas from the public as well, as I have indicated earlier on this morning. We will set out in the CSR how we will make progress towards our child poverty target. Whether it will involve that measure or not I cannot say at this stage, but the Department for Work and Pensions, as you will know, has been doing some interesting work recently on the child poverty strategy and they and we are looking at a range of ideas at the moment.

Q50 Mr Mudie: The Gershon savings: the way I see it you were going to get something like 30.3. You got 7.7 by last September. In 18 months you are going to have to get 7.7. Will you make your total savings as spelt out?
Mr Timms: Across the whole of the public services?

Q51 Mr Mudie: Yes, across the whole of the public services. You were just over halfway last September, and you have got 18 months to go. What confidence do we have that you will actually get the total savings?
Mr Timms: You are right, exactly halfway through the period we are a little more than halfway towards the target, so we are on track and I expect we will be successful.

Q52 Mr Mudie: Minister, how on earth can you be on track if you have 18 months left and you have only got half the savings?
Mr Timms: It is a three-year period, so 18 months is halfway through, and we are a bit more than halfway towards the target.

Q53 Mr Mudie: I thought it was four years actually.
Mr Timms: No, it is three.

Q54 Mr Mudie: Okay: one nil. Health was noticeably absent from the Chancellor’s Pre-Budget statement. Wanless suggested that you would need to spend between 4.2 and 5.1 for 20 years. You have done well so far. What factors are you putting into this area?
Mr Timms: It is certainly true that we have done well, the Health Service has seen unprecedented levels of funding growth, about 7% a year over the last two spending review periods, and that has delivered huge improvements, for example, on waiting lists. What is happening now is, following the catch-up which we were committed to following the Wanless Review, the NHS is putting in place the reforms to make sure it can continue to deliver sustained improvements over the period of the CSR. The Department of Health is looking, as are other departments, at the value for money savings that can
be made building on the progress in the current period with the Gershon savings, and I think it is going to be possible, with appropriate level of settlement for the Department of Health, plus ambitious value for money savings, to maintain the improvements that we have seen in the NHS so far.

Q55 Mr Mudie: So you are fairly confident that that 4.2 to 5.1 figure that Wanless suggested was necessary will be either met or exceeded, as it has, to be fair, in the past few years?

Mr Timms: No, I do not think that necessarily will be the case. What we have done, as a result of the additional funding of the last few years, is get ourselves into a position where, broadly, by next year, spending on health will be roughly in line with the European average, which was the intention when the programme started. We will set out in the summer what we think the appropriate level for health funding in the CSR years is going to be.

Q56 Mr Mudie: That is different from Wanless, is it not? Wanless obviously was projecting a higher level. Are you saying we are now reaching the average EU weighted level and we are content to stay there? We are not content—that is the wrong word—but that is the target we will be setting ourselves against.

Mr Timms: I certainly do not want to give the impression of any complacency, but what we set out to do was to raise the level of funding up to the EU average, and we will have pretty much got there by next year. We will have doubled, in real terms, the amount we are spending on the Health Service by next year. I think the period ahead will be one of consolidation where the rate of growth of spending will be less, but with the value for money work that I have been talking about, I am confident that we can maintain the improvements that we have seen in the NHS over the last few years. The last couple of spending review periods across public services has been a period of catching up on past under-investment. We have done that now and the next period is going to be rather different in character.

Q57 Mr Mudie: Did the Government accept the Wanless Report?

Mr Timms: We put in place—

Q58 Mr Mudie: The Chancellor commissioned it. Did he accept it?

Mr Timms: We put in place a very ambitious programme of raising—

Q59 Mr Mudie: Minister, it is a straightforward question. When the Wanless Report was published, did the Chancellor accept it?

Mr Timms: My recollection is that he certainly did and we put in place this huge programme of extra investment in the Health Service in response to that.

Q60 Mr Mudie: I do not take anything from it, but the Wanless Report suggested that we would expect increases greater than the expected growth in the economy to continue at least until 2017/2018; in other words, a 20-year programme. What you are actually saying is: we are departing from the Wanless Report and we are lining ourselves up with the average health spending weighted (whatever that means) in the EU?

Mr Timms: I am not in a position today to comment what the rate of increase of health funding in the CSR years is going to be relative to the rate of growth of the economy. Obviously we will set that out in the CSR.

Q61 Mr Mudie: I understand that you cannot give me detailed figures, but it is principles, is it not? There is a tremendous difference between Wanless, which the Government has accepted, and the EU average. What we have got from you today is that the Government is more likely to line itself up with the EU average rather than Wanless.

Mr Timms: No. The basis for the decision that we announced in the CSR is not going to be that we want to keep the UK in line with the European average; it will be that we want to provide the funding for the Health Service that the Health Service needs, and that is a judgment that we will make between now and the conclusion of the CSR.

Q62 Mr Mudie: That is why you set up Wanless, and Wanless said: there is what you need over 20 years. You made it easy for them, you said over 20 years, and we are now saying that we are departing from Wanless.

Mr Timms: Wanless has been extremely influential on government decisions about funding the Health Service over the last few years. For the future, we really need to take a fresh look at what the Health Service needs.

Q63 Mr Mudie: Let us take education, Chief Secretary. The brief asks me to ask you: will you make clear what spending on education in the CSR is new and what has previously been announced? Will you make clear at the CSR time? I am not going to ask you that question because I take with a pinch of salt anything the Treasury announce. For example, we have spent some time with your officials and with the Chancellor himself asking him to spell out some figures on capital spending and education, and to date we have not got what we asked for. For example, he announces a 15-year programme on secondary education. We ask a simple question you could ask your officials and the Chancellor: “Okay, a 15-year programme, Chancellor, what is the total cost of the programme? You are phasing it in over 15 years. How much are you going to spend over 15 years each year?” And, as the programme started in 2004, it is fairly sensible, is it not, and straightforward to ask the Chancellor and his officials: “Okay, you started in 2004. How much money have you spent to date?” To date: nothing. Although that was spelled out on the record and we gave them a month to deliver the information, we have not got the information. Why should we believe anything the Treasury announces if you cannot tell us how much money you have spent on the capital
programme and on education, particularly the BSF programme? It has been going since 2004. Could you tell us, or could you, Minister, give us a note?

**Mr Timms:** I am willing to provide information about what we have spent. Let me ask Sarah Mullen to comment.

**Ms Mullen:** The Building Schools for the Future Programme, as you said, was launched in February 2004 and the first wave of investment was provided in 2005/2006. Over the CSR/2004 period I think we provided over two billion a year in that period, and the Chancellor—

**Q64 Mr Mudie:** How much have you spent? So that would be four billion as we sit.

**Ms Mullen:** Yes. I am not sure of the figures of what exactly has been spent. I think it is fair to say that there have been some delays.

**Q65 Mr Mudie:** Those are your words, “some delays”. How much money have you spent? You are the Treasury, the Chief Secretary here is responsible for the expenditure. I am asking a straightforward question. You have had a two-year programme. Four billion pounds of public money has been set aside for this. How much have you spent?

**Ms Mullen:** I do not actually have those figures to hand. I do not know if someone can find them for me, but certainly I think, as I have said, there have been some delays, the programme is now back on track, the first three waves are underway involving around 400 schools and the Department for Education and Skills announced wave four, I believe, in December.

**Q66 Mr Mudie:** We are agreed. One figure we finally got out of the Chancellor, we did not get it out of the officials the day before, was that there are 3,100 schools involved.

**Ms Mullen:** That is right.

**Q67 Mr Mudie:** What is the estimated cost of this 15-year programme?

**Ms Mullen:** What I do know is that, as you know, we have settled the department’s capital for the CSR period. We did that at the PBR, which gives the amount of funding that DfES will get for the BSF programme, and I can give you the figures for that, if that would be helpful.

**Q68 Mr Mudie:** What was the figure in the previous CSR period? Was it not four billion on BSF?

**Ms Mullen:** I believe it was around two billion a year.

**Q69 Mr Mudie:** Good. What is the worry about how much you put in the papers for next year’s CSR? The Treasury obviously pay no attention to what is spent because you do not know what was spent in the previous CSR.

**Ms Mullen:** I think it is important to make sure that we focus on the purpose of the programme, which is to build high quality, fit for purpose schools. There have been some delays in the roll-out of that programme but the priority has been to make sure that the programme is delivered and to deliver those services.

**Q70 Mr Mudie:** I am not nit-picking. Sarah, but the words “some delays”! You asked 38 authorities to be part of this programme. How many are participating?

**Ms Mullen:** At the moment.

**Q71 Mr Mudie:** How many have actually put schemes forward out of 38?

**Ms Mullen:** I believe about 20 local authorities have developed their schemes.

**Q72 Mr Mudie:** So 18 have not even got to the stage of putting a scheme forward?

**Ms Mullen:** Twenty have developed schemes to take their projects to market.

**Q73 Mr Mudie:** That is almost half not participating. How many are open?

**Ms Mullen:** In the programmes to date I think the first school is due to be opened this year in September.

**Q74 Mr Mudie:** Does it not disturb you that you have a £4 billion programme and when a member of the Treasury Select Committee asks you how much has been spent you cannot tell us?

**Mr Timms:** I do not think there is any difficulty in providing you with that information.

**Q75 Mr Mudie:** Your Chancellor did, because he has not and the officials did not.

**Mr Timms:** Let me just clarify the point about the 20 local authorities—those are the authorities, of the 38, which have developed their schemes sufficiently to have passed through all the necessary approvals and taken their projects to the market. Those 20 have got a very long way down the track; the other 18 are not far behind. Four projects have reached financial close; construction is underway in three areas; and the first all new school is due to open in September. There has been some good progress.

**Chairman:** The officials appeared before us on Tuesday 11 December and exactly seven weeks has passed since then; and they did not have an answer then; the Chancellor did not have an answer then; and really what we are asking you now is to go back to education and ask them what they have spent so we can get a handle on it. It is the figures we are interested in.

**Q76 Mr Mudie:** It is also this, Chairman: Minister, if you announce a programme it does not have credibility if the Treasury cannot tell us what is the estimated cost of that programme. That is the first thing and that is a starting point. You have clearly agreed 15 years. You have phased it because you know how much it is going to cost, and you have phased it over 15 years, but we do not know. That is the first thing. The second thing is: having embarked on a 15-year programme you should be able to tell the Committee the estimated cost of it now, because
you have been working on it for two so you have some unit costs. For example, I asked for the average costs of an academy; I asked for the average costs of building work today, which obviously we cannot have. How can we have any confidence in any announcements when they do not seem to be based on financial figures?

Mr Timms: I do not agree with that. I think there is a good sound basis to the way the programme is going forward. I am very happy to go away and dig out some of the numbers you are asking for.

Chairman: If you could write to us on this.

Q77 Mr Mudie: Just a technical point in terms of the CSR, the subject you have come to talk about: if we have £4 billion for building for schools, and it appears we have spent very little, what happens to the money; is it rolled forward; or is it now a 16-year programme?

Ms Mullen: It is still a 15-year programme and DfES are still committed to delivering the transformation of the 3,100 schools within the 15 years. More generally, departments have access to End year flexibility as part of their capital budgets.

Chairman: If you write to us that would be handy.

Q78 John Thurso: The 3% efficiency gains extend to the block grants for the devolved administrations?

Mr Timms: It will be a matter for the devolved administrations how they handle their own spending plans. Clearly they will be affected in the sense that the 3% figures will be built into the spending projections, which will then be allocated under the Barnett Formula to the devolved administrations; but how they manage efficiency and value for money within their own departments is a matter for them to decide.

Q79 John Thurso: The effect of that is they get a 3% cut, as it were, and whether they do anything about it will be up to the devolved administrations?

Mr Timms: The value for money savings will be built into spending totals in that way reflected in the settlements for the devolved administrations.

Q80 John Thurso: The population of Scotland is projected to decline; I think that of Northern Ireland is also projected to decline; Wales to rise relatively slowly; and England will rise ahead of those. Using the formula, that will mean that the block grant, particularly for Scotland, will fall in relative terms to the expenditure in England. Do you foresee a moment when the block grant will fall in real terms?

Mr Timms: That is not a calculation I have carried out. I can certainly reassure the Committee that I have no plans to review the formula named after my illustrious predecessor Lord Barnett. I think that formula has served us well and sometimes there are arguments that it is not generous enough and sometimes arguments that it is too generous; and I think actually it is probably about right, and we intend to stick with it.

Q81 John Thurso: The core of the Barnett Formula is that it is a reducing formula; it actually applies a squeeze; it reduces the amount that goes to Scotland by comparison with England each year as it goes by. So if you have got a 3% efficiency gain (and it is based on population, broadly) and you have got a rising population in England and a falling population in Scotland, logic tells you that there comes a point at which it must be falling. Is that not just a mathematical calculation?

Mr Timms: I would have to look at the calculations to comment on that. Your characterisation of the Barnett Formula is certainly one; others would say that the Barnett Formula locks in the fact that spending in those devolved administrations in Scotland and Wales is at a rather higher level than it is in England. Precisely what the trajectory of the next few years is going to look like, I need to go away and do some sums.

John Thurso: It would be quite useful to know.

Q82 Mr Love: On this point, I just wanted to know why it was that the Treasury seems to be applying zero-based budgeting in other areas of expenditure, and I will not call it the Barnett Formula because the formula itself is not a particular problem, it is the base upon which the formula is added; but why are they not producing zero-based budgeting to do with that base figure for Scotland, Wales and Northern Ireland?

Mr Timms: I think the approach is right, that we are applying zero-based budgeting to the total of departmental spending. We are adding all of that up then allocating it on the basis of the Barnett Formula so there is, by that mechanism, an impact on the amounts given to the devolved administrations. How they then divide up that amount between their own departments under the devolved settlement is a matter for them to determine.

Q83 John Thurso: Can I turn to the wider Department for Constitutional Affairs in which they sit. They have agreed an early settlement up to 2010-11 which will reduce its budget by an annual average of 3.5% in real terms. Will this reduction affect all areas of the Department’s budget equally, or have particular areas been identified where there will be different levels of reduction or indeed increases?

Mr Timms: The settlement that has been agreed for and with DCA applies to the Department’s budget as a whole. Let me ask Richard Hughes to comment on this.

Mr Hughes: I think, broadly speaking, the DCA’s budget has got three main components. About half of it is Legal Aid. They have got about £4 billion and about £2 billion of that is Legal Aid. They spend another £2 billion on the court system; and then they have a small capital budget which they spend on refurbishing the courts’ estate. The plans they came to us with, which became the basis for their early settlements, were based on the Carter Review’s recommendations on Legal Aid which the Government has accepted and is taking forward. It was about putting that budget on a more sustainable
path over the CSR years but starting this year. The second one was around the criminal justice simple, speedy summary recommendations of that review, which was about getting more productive time out of the court system. That applied to the other big £2 billion portion of their resources. There was finally an element to their programme which was about the modernisation of the courts’ estate itself, which was their capital budget, which combined own capital expenditure plus recycled receipts from the disposal of surplus court buildings to renovate the rest of the DCA’s court estate over an extended period.

**Q84 John Thurso:** It will, to a large extent, depend on the timely implementation of the changes to Legal Aid, resulting from Carter?

**Mr Hughes:** Yes.

**Q85 John Thurso:** Turning to the DWP and the HMRC settlements, it really comes back to the question of my colleague in respect of value for money. I was listening with interest to the assertion, Minister, that everything is going well in terms of the delivery to the customer. I have received a huge number of complaints not simply from customers but from the agencies that tend to look after them, such as the Citizens’ Advice Bureau, the People’s Project and offices like these; so I am actually undertaking a structured survey throughout the north of Scotland as to exactly what is happening. From the early signs I have to say, to be able to say it is going well, the people who say that must be living in cloud cuckoo land. The Wick office, as you well know, was closed and the result of that is that customers have nowhere to go; they ring hotlines; they do not get answers; they then end up coming to me; we ring hotlines; we do not get answers; and so far the best, on one issue, is to have been shunted between five different offices. That says to me that if people who are providing the service can state that all is going well for the customers, they are in an ivory tower. Do you recognise anything of what I am describing as the reality on the ground?

**Mr Timms:** As you know, the Budget announced an early settlement for DWP, reducing spending by 5% per year in real terms on the levels of the 2007-08 base line budget and the DWP is developing how it is going to live within that settlement over the CSR years. I met the Secretary of State yesterday to discuss progress. There is a modernisation fund that was part of the settlement of up to £550 million that will be available to meet the transitional costs of transforming the DWP into the modern, efficient department that the Government wants it to be; in which the kind of problems you have described hopefully will be a thing of the past.

**Q86 John Thurso:** When you measure that, how will you really do what any serviced-based organisation seeks to do, which is to find out not what the manager is reporting up the line, which is the rosy tinted glasses, but what the actual customer experiences? How will you find out for real so you know whether it is actually happening or not?

**Mr Timms:** I think that is going to be quite an important challenge across public services through the CSR years, to establish precisely that. That is why we will, in the new performance management framework before the CSR period, be making greater use of subjective measures, of user feedback, of user surveys and so on, so that we can track precisely what is happening in the perceptions of users for the services we are offering. We will be doing that in DWP and more broadly. I mentioned the example earlier of the changes we have seen in the pension services, when it has been possible both to quite significantly reduce the number of staff, to improve efficiency and also to provide an increasingly good service, as measured and tracked in that way. I think we can do both of those things and we need to do it across public services throughout the CSR period.

**Q87 John Thurso:** For example, a lot of service companies like large hotel companies actually employ independent service auditors so that there can be no question that somebody on the spot has put a spin, heaven forefend, on what is actually happening. Would you consider, or would these departments consider, using professional, independent service auditors to actually give a clear view on this?

**Mr Timms:** I am sure the Departments will consider that. From our point of view, what is essential is that we have actual information about customer feedback so that we can make the kind of judgements we need to make. There is no value from the departments’ point of view, or from ministers’ point of view in having inaccurate information. I am sure they will consider how we can get the best possible information to use.

**Q88 Chairman:** What John says certainly echoes my own area. I have just had a letter from the General Secretary of the PCS on DWP, and what they tell us is that there is a huge backlog of cases as a result of the changed programme; that the face-to-face relationship with the customer has gone; and there is increasing frustration as a result of that and there are increasing inefficiencies as well. I am sending a letter to the Chancellor, Minister, so I will copy that letter to you; I think that would be helpful. Certainly that is the situation on the ground as it is reported to us.

**Mr Timms:** I am aware that PCS is making some of those points at the moment. I would go back to the pensions service example, where it certainly is true there has been quite a big shift towards people being in touch over the phone, rather than face-to-face; and all the evidence is, in terms of the user of the pension service, that that has been a big improvement.

**Q89 Mr Fallon:** Why last March did the Chancellor freeze the Home Office budget in real terms for the four years up until March 2011 before the CSR had even started, and before the Home Secretary identified the need for wholesale reform?
Mr Timms: The benefit for the Home Office of having that early settlement was a really quite unprecedented degree of certainty about the Department’s future funding for, in that case, a whole five-year period. Of course, that is a very valuable degree of confidence and certainty, allowing a kind of long-term planning which ought to be much more common in public services than it has been in the past, but the old year-by-year budget setting made that impossible. We have moved with three-year budget settlements decisively in the right direction. In this case the Home Office had a five-year period of certainty. If you have got that level of certainty about funding then of course there is more you can do in terms of reform.

Q90 Mr Fallon: How can you be certain of its future funding when the Home Secretary is not certain of its purpose?

Mr Timms: The Home Secretary is certain about the funding he has available throughout the CSR period, and that allows for long-term planning which is the kind of planning the Home Secretary has been doing.

Q91 Mr Fallon: Did that allowance for long-term planning back in March 2006 take full account of his prison population projections?

Mr Timms: It certainly did take account of the need for prison places. We have seen, of course, a big increase in prison cases—I think the number has gone up by 19,000, about 13%—and there is allowance within the settlement for, I think, another 8,000 places.

Q92 Mr Fallon: If it took full account last March of the prison population projection, how was it that in July the 8,000 places were then needed?

Mr Timms: The places were not needed in July. The arrangements were put in place (if I remember rightly) in July for providing them over the period in which they would be required.

Q93 Mr Fallon: When will the 8,000 places be finally available?

Mr Timms: By 2012.

Q94 Mr Fallon: They are fully funded within existing Home Office budget?

Mr Timms: They are within the settlement.

Q95 Mr Fallon: Can you guarantee that the 8,000 places will be enough?

Mr Timms: I think that is probably a matter for the Home Secretary rather than for me.

Q96 Mr Fallon: You have told us you took full account of the prison population projections. Will the 8,000 places be enough?

Mr Timms: I certainly anticipate that the requirement for additional prison places will be met by the settlement that has been agreed.

Q97 Mr Fallon: Why was the Home Office allowed to spend £197 million through PFI on its new headquarters in Marsham Street, when it has only spent £110 million on new prisons? You are in charge of value for money—why are they allowed to spend twice as much on featherbedding their own new offices than on providing sufficient prison places for the public?

Mr Timms: It is a matter for the Home Office how it allocates the priorities that it sets and the budget it takes forward.

Q98 Mr Fallon: You agreed the scheme?

Mr Timms: What I can say is that the Home Office has reduced the size of its headquarters by 40% by 2005-06 and 2010-11. The number of staff fell from 9,200 in 2004 to 6,500 in 2008, and down to 5,900 by 2010, and that has released savings of £115 million a year for reallocation to the frontline. Of course the new head office has helped in that.

Q99 Mr Fallon: When the Home Secretary is asking the courts not to send people to prison, how can it be right to allow him to spend twice as much on his own head office as on building new prisons?

Mr Timms: The Home Secretary, of course, is not asking the courts not to send people to prison; he has simply reminded judges and magistrates of the existing sentencing guidelines.

Q100 Mr Fallon: Why is it right to spend twice as much on your own head office as building new prisons?

Mr Timms: As I have said, the Home Office has achieved very substantial efficiency savings through the changes that it has made. The new headquarters has been a part of that, but not the only part; and the result has been additional resources released for increasing police office numbers and investment in other parts of the Home Office’s work.

Q101 Mr Fallon: Treasury approved the new headquarters, did it not?

Mr Timms: Certainly we will have approved the changes that it has made. The new headquarters has helped in that.

Q102 Chairman: Minister, the 2006 Pre-Budget Report contains a table on annual efficiency savings reported by government departments to the end of September 2006, and the Home Office is right up there as one of the departments that has achieved its efficiencies. Its agreed efficiency target to the end of 2007-08 was £1,970 million; its reported progress at September 2006 is £1,954 million; so the progress to the end of September has been achieved by 99%. Here you have a department that has achieved its efficiency targets and is way at the top and yet the Secretary of State comes out and says that it is “not fit for purpose”.

Mr Timms: I think it is very important across the public services that we are able both to improve what departments are doing while, at the same time, making progress on efficiency. I do not see any incompatibility between those two things. We have to be able to do both of them at the same time. That
Mr Timms: I understand it and it is a sea of confusion. I cannot understand it then the general public cannot understand it. If we were to bear comments like this in mind and come back to us with how it has come about, and the scrutiny role we have is very, very important. You have to go back with it "ain't fit for purpose". It is a shambles; there is something not right, somehow. I would love to know what the £1,970 million savings are; we have not had a detailed breakdown of what this is. You were saying that maybe it has been done in the prison estate where it has impeded progress in that area. We do not know; it is shrouded in secrecy?

Mr Timms: You mean where the efficiency savings have been realised?

Q104 Chairman: Yes. Mr Timms: I do not know if Sarah is able to comment on those details.

Q105 Chairman: It is important knowing exactly where the efficiency savings are. Then we can get a handle on the reason why the Secretary of State says it “aint fit for purpose”. Could Sarah help us out?

Mr Timms: I do not have with me the Home Office departmental report, but I will certainly anticipate that some of that information will be there.

Q106 Chairman: What I would look for, Minister, is a letter from you to the Committee in simple language so that we can say, “Ah, it isn’t fit for purpose because of A, B, C, D and E”, and the efficiency savings are either helping to make it fit for purpose, or they are detracting from the fit for purpose objective.

Mr Timms: I can certainly seek to provide the Committee with information about the efficiency savings. Some of the other issues might need to be raised with the Home Secretary. I think it is important to distinguish between improving efficiency and improving services, and to recognise that we can make progress on both at the same time. We need to do that across government departments in the CSR period.

Q107 Chairman: As politicians charged with scrutinising the department, we do not have a handle on exactly what the situation is. You come out with these figures of 99%, the Department of Constitutional Affairs, and we do not understand how it has come about, and the scrutiny role we have is very, very important. You have to go back with comments like this in mind and come back to us with that information so that we can understand it. If we cannot understand it then the general public cannot understand it and it is a sea of confusion.

Mr Timms: I will certainly dip into the departmental report and get back to you.

Q108 Mr Gauke: Before returning to specific questions on the Home Office, could I just ask one very simple question. In circumstances where public spending is rising along with inflation, or slightly above, but more slowly than the rate of growth in the economy as a whole, would you define that as a public spending cut?

Mr Timms: We will announce the details of the envelope for future government spending in the Budget of this year.

Q109 Mr Gauke: As a definition point, it does not depend upon the announcement, is a fall in public expenditure as a percentage of GDP necessarily a cut in public spending, if it is rising at or above the rate of inflation?

Mr Timms: I think it depends what you are considering a cut to be. It sounds to me as though it is rather in the eye of the beholder. We have projections for future spending. Only at the time of the Budget will we set out definitively what the future trajectory of public spending is going to be.

Q110 Mr Gauke: I will not pursue you, but I would not have thought it was in the eye of the beholder, but there we go. Chief Secretary, you will probably have seen the report produced by the Home Office and Downing Street that was leaked in this weeks Sunday Times showing that projections of the prison population will rise, under the medium term projection by 16,000 by 2012 and by 22,000 under the higher projection, unless there is action to reduce demand. Under the existing spending framework for the Home Office, do you think there would be sufficient prison places by 2012 to meet that demand?

Mr Timms: I think really that is a question for the Home Office rather than for me. I have talked already about the reflection of the need for additional prison places in the Home Office settlement; indeed we have already created something like 19,000 extra prison places over the last 10 years. In terms of how future demand will be managed that is really for the Home Office rather than for me.

Q111 Mr Gauke: On 21 July 2006 the Home Secretary announced a 24 point plan for the Home Office; a number of those policy changes require more prison places. Does the Treasury have any concerns about the cost of this package?

Mr Timms: That plan set out how the Home Office will manage its affairs over the next few years within the spending settlement that has been agreed, and it was announced in the Budget before that. I see those two as entirely consistent. Indeed the spending settlement was the basis for that plan.

Q112 Mr Gauke: You are not concerned that the proposals the Home Secretary announced would create substantial new pressures on the prison and probation services, given the current spending settlement for the Home Office?

Mr Timms: I am satisfied, and the Home Secretary is satisfied that he can manage his department within the resources that have been provided for the Home Office.
Q113 Mr Gauke: The reason why I ask these questions is, again, another story within the Sunday Times that reports a letter written by the Deputy Prime Minister following a meeting between yourself and Baroness Scotland, one of the Home Office Ministers. Within there the Deputy Prime Minister quotes you as saying that the Home Secretary’s proposals “would create substantial new pressures on the prison and probation services”; effectively suggesting that within this discussion you were putting pressure on the Home Secretary to reduce the number of people going to prison. Is that correct?
Mr Timms: No. We have regular discussions. I have discussions with every member of the Cabinet about their budgets in terms of those settlements that have already been agreed; it is about how departments will live within the resources provided. In the case of departments where the settlement has not yet been made, it is about planning for what the settlement should be.

Q114 Mr Gauke: Here the settlement is finished. Again, quoting from the newspaper article from the Sunday Times, the Deputy Prime Minister quotes you as having concerns about the increased use of suspended sentence orders as a substitute for low-level community orders; and concerns you have about the declining use of fines. These are issues you are not simply leaving to the Home Secretary, as you referred earlier and said, “That’s a matter for the Home Secretary”; it appears very clearly that the Treasury has concerns that the prisons are full and, under the current expenditure, there is no room. Is that correct?
Mr Timms: I have not seen the article in the Sunday Times and I would not want to comment on leaked correspondence. All I would say is that we do have regular discussions, and I have regular discussions with all of my Cabinet colleagues about their budgets in the period ahead.

Q115 Mr Gauke: Let me give you one specific example, one of the 24 points the Home Secretary announced in July, the proposal for extended period of probation supervision for prolific offenders. You were quoted as saying this might require more than 450 additional prison places, and the Deputy Prime Minister quotes you as saying, “He could not agree to the inclusion of this proposal, given the current pressures on custodial capacity and the probation service”. What is the position of the Treasury as far as the issue on the proposal for extended periods of probation supervision for prolific offenders is concerned?
Mr Timms: Again, I am not going to comment on leaked correspondence. All I will say is that it is for the Home Secretary to manage his department within the resources that are available to him. The Home Secretary entirely recognises that and is doing that, and doing it successfully.

Q116 Mr Gauke: Have you or any other Treasury minister put any pressure on the Home Secretary to encourage judges and magistrates to send fewer people to prison?
Mr Timms: I really do not want to say any more than I have already said—

Q117 Mr Gauke: I know you do not want but it is highly germane to a very important public debate.
Mr Timms:— which is that I have regular discussions with every member of the Cabinet about their budgets going forward. The Home Secretary is no different from any other minister in that respect.

Q118 Mr Gauke: I cannot quite understand, Chief Secretary. On the one hand you are saying these are matters for the Home Secretary to manage his department. Let me give you another quote from the Deputy Prime Minister’s letter, and this is to Baroness Scotland: “You assured Stephen [that is you] that you would continue to pursue measures to offset the impact of ensuring dangerous offenders are retained in custody, by working with sentencers to stop sentencing drift”. I am not quite sure what that sentence means. I think it means discouraging judges and magistrates sending more people to prison. Is that not the case?
Mr Timms: I have got nothing further to say on the subject.

Q119 Mr Gauke: Do you see, Chief Secretary, that it is a hugely important issue. The Home Secretary, and I know he is not someone who evokes a lot of sympathy within the Treasury but he is getting the most appalling press at the moment, the Sun runs a headline saying, “National Hunt: the Home Secretary’s brain has gone missing”; and it would appear from this news story that all the Home Secretary is doing is working with sentencers to stop sentencing drift. In other words, he is doing the Chancellor’s bidding and encouraging judges to pursue fewer custodial sentences. Is that not the case?
Mr Timms: You have been quoting a newspaper article and what I suggest you do is look at what the Home Secretary is reported as saying, as reported in today’s newspapers, about the excellent working relationship between his department and the Treasury. I do not think there is any more to be said on the subject than that.

Q120 Mr Gauke: There is a very tight settlement for the Home Office. There are enormous demands upon the prison places, there is no dispute about that. The Home Secretary has announced since the CSR was announced at the Home Office 8,000 new places, but there is no additional money for that. The Home Office’s projections are that the prison population will increase by 16,000 unless measures are taken. It would appear perfectly obvious that in the discussions between the Treasury and the Home Office that the Treasury is putting pressure on the Home Office to put fewer people in prison. Is that not the case?
Mr Timms: I do not think there is anything further I can say beyond what I have already said, which is that I meet with the Home Secretary as with every other member of the Cabinet to discuss their budget; it is my job to do so; and the Home Secretary, as was said yesterday and this morning, has characterised accurately the relationship between his department and the Treasury.

Q121 Mr Gauke: The Treasury is nonetheless encouraging the Home Secretary to reduce the number of people going to prison. I am not saying that is necessarily wrong, but is it not the case that the Treasury is taking a role here? When it comes to this great issue of prison places it is the Chancellor who is as heavily involved in this as the Home Secretary. The two of them are co-defendants in this case, are they not?

Mr Timms: It is perfectly clear to the Home Secretary, as it is to every member of the Cabinet whose department has already had a settlement, that they need to manage their department within the settlement that has been agreed.

Q122 Peter Viggers: The expression “manage within his budget” might give the impression that the Chief Secretary discusses with different Cabinet ministers and agrees a number and the respective minister then goes away and works within that number. The truth though (unless the situation has completely changed) is that the Chief Secretary always expresses views on the detail of the departmental budget as well as the actual global figure. Is that not correct?

Mr Timms: I have discussions with every member of the Cabinet about a range of issues in their budget. The early settlements that have been agreed have all been agreed, however.

Q123 Mr Newmark: Following up on some of the points made earlier by Mr Fallon and Mr Gauke—I understand the point you have made about the need for certainty at the beginning of this section; but the fact is that the Chancellor has frozen the Home Office budget, at a time in which a new Home Secretary comes in and says the Home Office is both dysfunctional and not fit for purpose. I think Mr Gauke made some pretty good points on the pressure that is coming on in terms of what the expectations are for prisoner population. My first question is a pretty specific question: are new prison projects being blocked because new prison projects, which go through PFI, mean that PFI projects actually are on the balance sheet and this, in turn, would then skew the Government’s borrowing figures? Is that not part of the reason why perhaps new prisons are not being built to actually deal with the pressures we are likely to come under in terms of more prisoners?

Mr Timms: That is entirely untrue.

Q124 Mr Newmark: What is untrue, that it is an off balance sheet item, or not?

Mr Timms: No, that the assessment is based on whether or not the project is going to be on or off balance sheet. The assessment is made on the basis of need.

Q125 Mr Newmark: We heard there is going to be a need for more prisoners to be locked up, and you are not providing the money?

Mr Timms: That is the basis on which we have increased our prison places already by 19,000, which is about 13%. It is not true, as you have suggested, that new prison places have not been provided, they have been.

Q126 Mr Newmark: But not enough.

Mr Timms: There will be another 8,000 in the period ahead as well. In answer to your question is the assessment based on whether something is on or off balance sheet, no, it certainly is not.

Q127 Mr Newmark: I understand again there is going to be a security carve-out out of the Home Office budget to deal with specific security issues. Given the pressures there are today in our society and the need for greater security, does that mean there will be added pressures then on more domestic Home Office issues, such as violent crime, locking up people and so on? Is that security budget extra money coming in within the Home Office, or is it being carved out?

Mr Timms: All I would say at this stage is that there is, as part of the CSR, a review of counterterrorism as one of the strands. As you will know, we have announced substantial additional resources for the security services over the last couple of years and will set out the conclusions of the review when we get to the CSR. There is a separate review underway at the moment.

Q128 Mr Newmark: Is there going to be separate money, or is the money going to be carved out of the Home Office budget; and will that mean added pressure on other issues the Home Secretary is facing today?

Mr Timms: I think all I can suggest you do is wait until the announcements are made when the details will be spelt out in the White Paper.

Q129 Mr Newmark: Am I to assume there is no extra money?

Mr Timms: You will need to await the announcements.

Q130 Kerry McCarthy: In the Pre-Budget Report it was announced that the Treasury would require each department to produce a cross-departmental delivery agreement so that they could not breach PSA to facilitate better joint working. Can you explain how that differs from the current arrangements when you have cross-departmental PSAs, or joint PSAs?

Mr Timms: We are making a number of quite important changes to the performance management framework, partly reflecting the comprehensive character of this Spending Review, but also learning
lessons from the last couple of Spending Reviews and applying them to the future. What we are doing is significantly reducing the overall number of Public Service Agreements. At the moment there are 110. The number in the CSR White Paper will be significantly less than that. They will be more government-wide in character, so representing the government-wide priorities rather than departmental priorities; and I think they will also be much more cross-departmental in terms of involving a number of departments in their implementation. It is also an important feature of them that they will all have delivery agreements in place. We will want those to be published in advance of April 2008 to make sure that the strategies for delivering the agreements are robust. We also want those arrangements to be very widely discussed with service users, members of the public and with departmental select committees as well.

Q131 Kerry McCarthy: The publication of the CSR is also the starting point of the discussion about the Delivery Agreements?

Mr Timms: It certainly will not be the end point of the discussion.

Q132 Kerry McCarthy: You say there will be broad brush targets, can you give us some examples of the sort of things they are likely to focus on?

Mr Timms: I cannot really give any examples at this stage because the work has not yet been done, but what I am certain of is that there will be significantly fewer, and I think they will be more cross-departmental in character. Roughly speaking, under the old arrangement the tendency was that a department would have its PSAs; I think what we are going to see in the new framework is a much greater degree of PSAs shared between departments. Sarah, is there anything you would like to add?

Ms Mullen: As you have set out, the principles behind the new framework will be that there will be a smaller set of corporate government PSAs, which particularly pick up issues of priority across government. I should perhaps add that below that we anticipate departments will still have a set of departmental objectives which will set out their own strategic objectives for the coming period, and they will feed into the smaller set of corporate PSAs.

Q133 Kerry McCarthy: Something like the Government’s target on child poverty, the 2010 target, the longer target, would that be something that is likely to be the subject of a cross-departmental Delivery Agreement?

Mr Timms: It will certainly be reflected in the PSAs and, therefore, picked up in those Agreements.

Q134 Kerry McCarthy: But seen very much as cross-departmental?

Mr Timms: Yes.

Q135 Kerry McCarthy: When will a decision be made as to which department has the lead responsibility for delivering on the child poverty target; is it the Treasury still?

Mr Timms: When we publish the PSAs we will indicate which department will lead on each of them; that has not been decided as yet.

Q136 Kerry McCarthy: In terms of the level of spending required, when you have something that has a target that has been set outside the framework of the CSR, to halve child poverty by 2010, the Joseph Rowntree Foundation have estimated that it would require an extra £4.5 billion. Has the Treasury done its own calculations and, if it has, will that be fed into the CSR process?

Mr Timms: I think the Chancellor discussed this with the Committee before Christmas. Our view is that there are a range of measures that need to be put in place and can be put in place to address child poverty, not least increasing the number of people who are in employment and making it easier for people to get into employment. I would not sign up to the Joseph Rowntree number. I think it depends what steps are put in place to move us towards the target.

Q137 Kerry McCarthy: I think with the efficiency savings in the main departments involved, the Treasury, DWP and HMRC, it is estimated that will amount to about £2 billion over the CSR 2007 period onwards. You would not say there is a direct correlation? That means you may have found £2 billion that you could use towards achieving the child poverty target, and then you would need another £2 billion or so extra on top of that? It is not quite as simple as that?

Mr Timms: No, it does not work like that.

Q138 Kerry McCarthy: In terms of achieving that target, is there any intention to revisit the definition of child poverty? Is that something you are likely to be looking at?

Mr Timms: I have not seen any suggestions to do that.

Q139 Mr Fallon: Staying with the PSA targets, you wrote to the Chairman on 25 January and I have to say I am confused. You have got departmental strategic directives, the DSOs; you have then got cross-departmental Delivery Agreements; and on top of that you have got “a refreshed and smaller suite of corporate PSAs”. Does any of this stuff actually include sanctions? Can any of this stuff be failed?

Mr Timms: Yes, clearly if the targets set are not met.

Q140 Mr Fallon: What happens?

Mr Timms: That will be published and reported on in the same way it has been with the existing PSAs. What we are changing is the shape of the framework and the number of agreements; but the nature of the report on them will be rather along the lines that it has been.

Ms Mullen: I think our ambition is that feedback from users, transparency will actually increase, because for the first time we will actually be publishing these Delivery Agreements. The Delivery Agreements will set out how each corporate PSA
Q141 Jim Cousins: In the indicators given last July for the Comprehensive Spending Review there was a reference to have a review of so-called high cost, high-harm families. It was said that the review would cover the stock of these families regarded as high cost, high harm, although it acknowledged that some people “cycled in and out of this category”. Are we to have a definition in the Comprehensive Spending Review of high cost, high harm families, the numbers of them and how they cycle in and out of the category?

Ms Mullen: I think that is a reference to the children and young people’s review, which is one of the reviews going on for the CSR.

Q142 Jim Cousins: What is the stock of high cost, high harm families?

Ms Mullen: I do not know the answer to that question; but I imagine that the discussion paper will have a discussion around those sorts of issues and exactly how you define it. It may be very difficult to define.

Q143 Mr Love: Can I come back to the child poverty target for 2010-11. I am assuming from what you said earlier that you will not be confusing relative and absolute poverty; you will continue with the same definitions you had previously. I wanted to be absolutely clear that the Treasury will take overall lead responsibility for this particular target, recognising they determine both the level of benefits and tax credits. Can we just be clear about that, that the Treasury will have overall responsibility for this?

Mr Timms: I cannot say today that the Treasury will. It may be appropriate, for example, for DWP to lead on the PSA which refers to that. There is quite a strong case for that given that department’s role in delivery. As yet, that has not been decided. If this Committee wants to make representations about that, or indeed other aspects of the CSR, then we will receive those with interest.

Q144 Mr Love: The Chancellor earlier this year commented, and you have commented on it as well, that the figures given out by various organisations are dependent on increasing the number of people who currently are not in work and the make work pay priorities that have been set out by the Treasury in the past. You talked earlier on about having some steps in place and discussions ongoing with the DWP. Recognising that there is going to be a statement made today by the Secretary of State for Work and Pensions, have there been any discussions with the Treasury in relation to the level of benefits relating to making work pay?

Mr Timms: We are continually in discussion, both officials and ministers, between our two departments about levels of benefit, employment programmes and a range of issues. Certainly there would not be any change to a benefit level without discussion with the Treasury first.

Q145 Mr Love: Can I just press you a little on that. Is it part of the discussions you are having with the DWP that there needs to be a reduction in the level of benefits in order to give an incentive for people who currently are not in work to get into work?

Mr Timms: I think you are pressing me to anticipate what the Secretary of State may or may not say later. I will resist the invitation to do so!

Q146 Mr Love: Can I take you back to Public Service Agreements. There have been complaints in the past about distortions of priorities, perverse incentives that some of the PSAs may be contradictory with other PSAs, and of course that it distorts behaviour. Over the last period since the introduction of PSAs (and I know there will be departmental agreements and that party will iron out some of the problems) are you confident that some of the real concerns that have been raised in the past will not occur in this next round of the Comprehensive Spending Review?

Mr Timms: First of all, I would want to make the point that my view is the performance management framework we have had, the arrangement about the PSAs, has been a very, very important contributor to the dramatic improvements we have seen in the outcomes from public services over the last few years: big reductions in waiting lists in health; big improvements in achievement in schools and so on. I would not want anybody to underestimate the value of the framework we have had in place, the contribution that the PSA system has been. Of course, it was a very radical departure in 1997 and a very successful one, but we have wanted to learn from our experience in the period. Since then we have improved the PSA system with each successive Spending Review. We have already reduced the overall number of targets. As I have said, we will reduce the number of PSAs again. We have moved to focussing much more outcomes rather than inputs which is often quite difficult to do, but we recognise the importance of doing so and we have moved in that direction. We have also wanted to give staff on the frontline more autonomy to deliver. We have learnt the lessons from what has been achieved so far and we will build those into the framework in the CSR.

Q147 Mr Love: Finally in relation to this, this is a common problem and I am sure you have come across it in your own constituency. I certainly have on a number of occasions, where housing targets suggest a number of houses be built but there is no equivalent recognition of the other services that need to be incorporated to make where those houses are
being built into what we consider to be a community—schools, doctors’ surgeries and all of the other things which are necessary. Are we confident that PSA targets will be able to take in the diversity at the local level and ensure that we tie up the different PSA targets to achieve an overall improvement at a local level?

Mr Timms: I think we will be able to do that. You have mentioned my constituency. My constituency is in the Thames Gateway area and I think we are seeing that much more joined up way of thinking in the plans for regeneration of the Thames Gateway than sometimes has characterised these efforts in the past. I certainly do not see any tension at all between the PSA framework and the objectives you spell out.

Q148 Chairman: Minister, the National Audit Office has suggested that the CSR provides an excellent opportunity to build in data and quality management from the start with a new round of measures and targets. The Statistics Commission has recommended the establishment of target protocols for each PSA target. Will you be responding positively to those suggestions?

Mr Timms: I welcome those suggestions and I agree that the effective use of data for monitoring improved outcome does need to be a cornerstone of the revised framework we will be putting in place. We will improve the transparency of all the CPA indicators by nominating an official in a department who will be responsible for making sure data quality is monitored and transparently reported to the public. I certainly do expect departments to respond constructively to any concerns about any current data systems that will continue to be used over the CSR years; and will be considering the results of the work the NAO has done on validation when looking ahead to a potential problem that might arise with new data systems.

Q149 Mr Todd: Just before Christmas the Treasury announced a review of trading requirements and their future potential as part of, it was believed, an asset for the sale programme. Since those form, in some cases, quite significant parts of some of the departments for which PSAs will have to be agreed, and certainly asset sale targets will have to be agreed, how is that going to be run? Is that going to run for a similar timetable?

Mr Hughes: We did announce in the PBR that we were taking forward an ongoing programme of asset management, and one of the things we have looked at is not just fixed assets of departments, surplus fixed assets departments can dispose of now, but also public corporations and trading funds for which they are responsible and a scope for bringing those to market and for sale where we think that offers value and is in the public interest. We have set out a number of such corporations and we are looking at trading funds amongst them but obviously it depends on when these things are ready to be brought to market and whether you can get the best value for money from the sale and whether there is a buyer out there.

Q150 Mr Todd: There is no conjunction timescale between that activity and this particular Review, is that right?

Mr Hughes: It takes two sides to sign these contracts so you have to bring them to market and sell them when you find a buyer and when you think you can get a value for money saving.

Q151 Mr Todd: What I am pressing you on is that it is not driven by a requirement to produce some particular outcome as part of the CSR process? There is a separate review which will run to its own timetable and according to the market suitability of some of the entities we are talking about?

Mr Hughes: Yes, it will be driven by getting the best value for money.

Q152 Mr Todd: Or indeed the value of disposing of these items at all because there may well be other public policy reasons why they should not be sold.

Mr Hughes: Indeed, whereas if there is a public policy objective that means that they should remain in the public sector they will do so.

Q153 Chairman: Minister, there have been no announcements regarding the changes to PSAs and the introduction of the new Delivery Agreements underpinning them. It is our information that five departments so far—the DWP, the HMRC, Treasury itself, the Cabinet Office and the DCA—have agreed settlements for the spending review period. Have they got PSAs and Delivery Agreements in place?

Mr Timms: No, the PSAs have not yet been finalised and agreed, that is one of the key things we need to do over the next few months. Those departments, as well as those that have not settled, will be involved in those discussions.

Q154 Chairman: That seems a bit silly because you are agreeing what you are going to pay for things before discussing with the departments what they are going to deliver in return.

Mr Timms: No, I think what we will be able to do in the CSR White Paper is set out what all of the departments will achieve in the light of the spending which has been allocated to them. The fact that in the case of some departments that allocation was made rather earlier than others I do not think affects that.

Q155 Chairman: As one of our advisers described it, it is like going into a restaurant and paying for your meal but you do not know what is on the menu, you do not know what is coming. That is what it is like. You do not know what they are going to deliver.

Mr Timms: We know in the case of those departments what resources they all have available and now in discussion with them we can agree what the PSAs that will be delivered are going to be.
30 January 2007    Rt Hon Stephen Timms MP, Ms Sarah Mullen, Mr Paul Johnson and Mr Richard Hughes

Q156 Chairman: It seems to be the wrong way round, Minister, if you will forgive me.
Mr Timms: No, I do not agree. It is important that we publish the PSAs and agree them in step with the decisions about resources. One could argue if it was the other way around it would be very difficult to announce what departments were going to achieve before announcing the resources available to them.

Q157 Chairman: The population growth: do you accept that population growth foreseen for coming years implies additional pressures on public services that are required to operate with static or falling resources in real terms?
Mr Timms: You will know of the projections on population. I think the answer to your question will depend on which kind of service we are looking at. For example, it is certainly clear that the number of over-85 year olds is going to grow quite substantially over the next decade. The change in the number of the school age population will look rather different. I think it very much depends on which service we are talking about.

Q158 Chairman: Are you taking forward in the CSR account of the impact of immigration on the costs of providing public services?
Mr Timms: We are looking at all of the pressures and departments are looking at all of the pressures that they are expecting to need to address.

Q159 Chairman: What services do you think will most have their costs affected by inward migration and will there be geographical variations in impacts?
Mr Timms: In terms of the big long-term challenges we have talked particularly about demography and I think that is going to be quite a big influence on the shape of public services looking over the period. Certainly there will be some impact from migration but I would not expect that to be on the same sort of scale.

Q160 Chairman: Minister, can I thank you and your officials for your time this morning. You mentioned about the announcement of the CSR maybe being delayed until October or further announcements. There is maybe a case for you coming back to us in the quiet month of July with an update.
Mr Timms: I did not suggest there was going to be an announcement in October, I said it would need to be by October.

Q161 Chairman: We will want to have something to excite us over the summer holidays.
Mr Timms: If the opportunity arises, Chairman, I would be delighted to come back.
Chairman: Good. Thank you very much.

Memorandum submitted by London First

RELEASING THE RESOURCES TO MEET THE CHALLENGES AHEAD: VALUE FOR MONEY IN THE 2007 COMPREHENSIVE SPENDING REVIEW

1. London First is a business campaign group working to improve and promote London with the support of 300 of the capital’s major businesses. London First members represent a quarter of London’s GDP from key sectors such as finance, professional services, property, ICT, creative industries, hospitality and retail. Our membership also includes all of London’s higher education institutions as well as many of the further education colleges, NHS trusts and independent hospitals.

2. This submission focuses on two aspects of the Comprehensive Spending Review (CSR): supporting sub-national growth (para 1.14 of Releasing the Resources to meet the challenges ahead) and investing in the nation’s infrastructure (paras 3.35 and 3.36).

SUB-NATIONAL GROWTH

3. We welcome the review of the effectiveness of sub-national interventions on economic development and the regeneration of deprived areas. Since CSR 1997 there has been great progress in recognising the regional dimension of spending reviews, with submissions by regional bodies on their priorities. Nevertheless the CSR is still conducted primarily on a departmental basis, with departmental ministers then allocating resources between regions. The eventual balance of programmes between regions may not best meet the region’s needs. We recognise that the Government has moved towards greater flexibility between programmes through the “single pot” for regional development agencies (RDAs) and local area agreements for programmes delivered at local authority level. However it remains the case that spending plans do not sufficiently reflect regional needs and priorities.

4. In the case of London, there is no systematic way of taking account of the importance of the capital to national economic growth and competitiveness. The issue here is not the share of resources that go to London compared with other home countries and regions, but what is needed to sustain its international competitiveness with other world cities. Research carried out for London First Keeping the UK Competitive (KUKC)—web site ref. www.keepingtheukcompetitive.org—shows that London and the rest of the UK are inter-dependent, with half the benefit of investment in London being felt in other regions. The CSR also
needs to take account of the fact that London’s population is forecast to grow by a million by 2025, with nearly a million new jobs. KUKC identifies skills and transport as the two main priorities for London in CSR.

5. Because of the separate programme for funding Transport for London, it is possible for London’s transport needs to be explicitly considered in the CSR. Crossrail is such an important and substantial project, with major implications for the productivity and competitiveness of the UK as a whole, that there will need to be a specific decision on it in the CSR.

6. London’s needs and priorities are less well taken into account in setting the budgets and objectives of the Learning and Skills Councils (LSCs). LSC objectives are set centrally and do not take account of the much higher demand in London for Level 3 skills and above. At the same time, despite its vibrant economy, London has the lowest employment rate in the UK, 5% lower than the national average. LSC objectives should be framed in terms of numbers of people getting into jobs rather than just numbers taking courses at various levels. We are hopeful that the creation of a London Skills Board controlling the adult training budget, chaired by the Mayor and with a majority business membership, will deliver better outcomes.

7. Alongside its prosperity, London has a higher concentration of deprivation than any other region. 64% of London’s lone parents are dependent on income support and 43% of the capital’s children are living in poverty. The reviews of sub-national interventions and of children and young people need to be considered together.

INFRASTRUCTURE INVESTMENT

8. We greatly welcome the increase in public sector investment since 1997 to 2% of GDP and the 60% increase in provision for transport. The publication of a 10 year guideline for transport and a five year programme for TfL in the 2004 spending review represents great progress towards the longer term planning that the long lead time for transport investment requires. We hope that these will be rolled forward, informed by the outcome of the Eddington review.

London First’s submission to the Eddington review:

— Main submission—http://www.london-first.co.uk/publications/bb—3080.pdf
— Authorisation procedures for major projects—http://www.london-first.co.uk/publiccations/bb—3079.pdf

10. We also welcome the reforms to the budgetary and fiscal framework, including separate capital and resource budgets to safeguard long-run capital investment from short term resource pressures. We are however concerned that the current interpretation of what constitutes a sustainable and prudent level of public sector borrowing may unduly inhibit the level of investment that can be accommodated in the CSR.

11. The 2006 Budget report forecast that borrowing would increase to 38.6% of GDP by 2011–12. Many commentators consider this forecast to be optimistic. Since then the redefinition of PFI liabilities has added a further 1.2% to the debt ratio. There is therefore the prospect that the objective of keeping public sector debt below 40% of GDP may severely constrain future investment.

12. Business supports the Chancellor’s fiscal rules. Fiscal prudence is clearly an essential condition of economic stability and growth, but it is damaging to growth and competitiveness if necessary investment is frustrated—not just because of the current state of the public finances, but for the foreseeable future. This presents a structural problem that must be addressed.

13. For projects that produce a high return in terms of increasing GDP, the debt ratio should not be an issue since they should not represent a long term drain on the Exchequer. For example, Crossrail is estimated to add some £30 billion to GDP over its life, generating increased tax receipts of around £12 billion, which would well exceed its net cost.

14. Some flexibility in judging that borrowing is prudent and sustainable is dependent on assurance that the projects concerned really will provide sufficient economic benefit and consequent increase in tax revenue. To ensure that the financial markets can be confident that such projects really are likely to deliver the forecast benefits, they should be subject to the same kind of due diligence that an investment bank would apply if it were providing loan finance. Access to borrowing for these projects should be subject to strict investment criteria, overseen by an independent board, including senior business leaders with experience of financing and managing major projects. PFI projects should be subject to the same discipline to ensure that full account is taken of future public sector liabilities and that the continuing public sector cost is fully covered by the benefits.

15. We believe that a reform along these lines would not only safeguard continued long-run investment but would also ensure that projects deliver good value for money and that they are financed in the most appropriate way, without any artificial incentive to get them “off balance sheet”.

October 2006
Memorandum submitted by the Royal Society for the Protection of Birds (RSPB)

SUMMARY

1. In this response, we comment on two issues that encapsulate some of the problems for the environment in the Spending Review process. Firstly, the partial construction of the Treasury’s fifth challenge in relation to sustainable development; and secondly the problems with delivering cross-cutting environmental PSA targets.

INTRODUCTION

2. The Royal Society for the Protection of Birds (RSPB) is the charity that takes action for wild birds and the environment. We are the largest wildlife conservation organisation in Europe with over one million members. We own or manage almost 130,000 hectares of land for nature conservation on 190 reserves throughout the UK. We are the UK partner of BirdLife International, a global network of over 110 grass roots environment organisations. We have regular contact with the Treasury on environmental policy issues, and our recent letter to the Chancellor on CSR 2007 is annexed to this submission.

THE TREASURY’S FIFTH CHALLENGE

3. We believe that sustainability should be at the heart of government policy development. The UK’s Sustainable Development Strategy forms a sound basis for this, but we can see no use of it in the Treasury’s five challenges, including the fifth challenge on climate and natural resources.

4. The Treasury’s fifth challenge as written, suggests two principal problems: namely increasing pressure on natural resources and global climate change. The precise nature of the challenge presented by global climate change, albeit with continuing scientific examination, is well articulated. The threat to natural resources, is less clearly defined—but no less real. The challenge suggests that economic growth in the developing world is the most important factor in creating pressure on the stock of natural capital. This implies, by contrast, that economic growth in the developed world does not pose such a risk and is now occurring on a less resource intensive footing. This implication is wrong/while the most rapid environmental degradation is not occurring in the UK, globalisation now means that a proportion of the world’s most serious environmental problems (such as carbon dioxide emissions and rapid loss of biodiversity) stem from UK consumption. Domestic statistics do not show these global impacts of the UK’s economy.

CHALLENGES IN DELIVERING ENVIRONMENTAL PSA TARGETS

5. The existing environmental PSA targets have helped deliver improvements in the policy areas concerned. For example, the Farmland Birds PSA target has helped relevant policies (such as cross compliance and agri-environment schemes) address the speed of decline of farmland wildlife. However, the delivery of targets must be seen through to completion for two reasons: firstly because they are worthwhile to achieve in themselves; and secondly for long-term credibility. The delivery of the Farmland Birds target is dependent on the transfer of a substantial proportion of spending, from agricultural production support payments, to environmental and other rural policy targets. Such transfers are clearly in the public interest, and it is essential that they are secured through CSR 2007.

6. We have concerns over the effectiveness of the PSA system in relation to cross-cutting environmental issues, in particular emissions of carbon dioxide. The Department for Transport joined the Department for Trade and Industry and Defra in having shared responsibility for the climate change PSA target in the 2004 spending review. However, a recent attempt to analyse the impacts of road widening on CO₂ emissions revealed that DfT has no way of systematically accounting for the CO₂ impacts of UK road-building decisions (eg relating to the Highways Agency’s targeted program of improvement). We are concerned that this environmental PSA target is not adequately integrated into DfT policy-making or their spending negotiations with Treasury. This inadequate integration is particularly worrying given the rising importance of climate change since the last spending review, and the need to integrate CO₂ emissions considerations into all Government activities.

7. Defra’s PSA target to promote sustainable development includes responsibility for the UK’s progress in delivering the World Summit on Sustainable Development commitments towards biodiversity and ensuring ecosystem integrity. This target obviously has a huge international dimension, yet its delivery is extremely difficult for Defra when DfID controls the majority of the UK’s overseas spending relating to impacts on natural resources. We believe it is essential that this spending-responsibility imbalance is resolved through CSR 2007.

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1 “Increasing pressures on our natural resources and global climate from rapid economic and population growth in the developing world and sustained demand for fossil fuels in advanced economies.” Written statement to Parliament 19 July 2005.
8. The PSA system has brought some notable benefits for the UK’s biodiversity. The PSA target on Site of Special Scientific Interests has concentrated policy development, and public and private sector spending, on improving the condition of our most valuable wildlife sites—a task that remains ongoing. More than half of the total area of SSSI land in England is owned or managed by Government departments and agencies (eg MoD), local authorities and other public bodies—a adequate funding within these bodies for SSSI management is essential to achieving the target. Adequate funding is also needed so that Government agencies can deliver favourable condition through their regulatory responsibilities (eg through the Environment Agency’s Review of Consents to comply with the Birds and Habitats Directives).

October 2006

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Supplementary memorandum submitted by the Royal Society for the Protection of Birds

SUMMARY

The RSPB submitted evidence to the Treasury Committee on the 2007 Comprehensive Spending Review (“Biodiversity in CSR2007”) in October 2006. In that response, we commented on two issues that encapsulate some of the problems for the environment in the Spending Review process. Firstly, the partial construction of the Treasury’s fifth challenge in relation to Sustainable Development; and secondly the problems with delivering cross-cutting environmental PSA targets.

In this response, we highlight key questions relating to these two issues:

— How will the true nature of the natural resources challenge—in particular the role of UK consumption in unsustainable use of global resources—be fully integrated into UK policy making and spending priorities?
— How will PSA targets reflect the impacts on climate change on the UK environment, in particular on biodiversity?

LONG TERM CHALLENGES

1. The RSPB welcomed the Government’s strategic approach to addressing long-term challenges and the inclusion of natural resource pressures amongst the key challenges. Our previous evidence pointed out the problems of defining the natural resources “challenge” and its links to the UK economy.

2. The recognition in the Treasury’s analysis of challenges that economic growth is dependent on a healthy environment, and that ecosystems with greater biodiversity are more adaptable and resilient, is welcome. However, we believe considerable further effort is needed for these points to be fully integrated into UK policy making and spending priorities.

3. Biodiversity is a strong indicator of the health of our environment and many of the functions that make up ecosystem services. These services have been categorised by the Millennium Ecosystem Assessment as:
   — Provisioning services—eg food, fresh water, fuel wood, genetic resources.
   — Regulating services—eg climate regulation, disease regulation, flood regulation.
   — Cultural services—eg spiritual, recreational, aesthetic, inspiration, educational.
   — Supporting services—those needed for the provision of the other services—eg soil formation, nutrient cycling, primary production.

4. Natural and semi-natural habitats in the UK provide services of all these types. Therefore, PSA targets relating to biodiversity are not just important in themselves, but also because they signal the importance of maintaining a healthy environment to all parts of Government.

BIODIVERSITY PSA TARGETS

5. The UK is committed to ensuring the survival and recovery of biodiversity threatened by human activity, including climate change. It has an international commitment to halt biodiversity loss by 2010. Defra’s current domestic biodiversity targets relate to the condition of SSSIs (which are our most precious wildlife sites) and farmland birds (representing one particular group of species whose fortunes reflect wildlife and land use in the wider countryside).

6. The RSPB believe that it is essential that the SSSI and farmland bird targets are retained within Defra’s PSAs. The farmland bird target already extends to 2020, it must be retained as a driver towards a more sustainable agricultural policy. The SSSI target reaches its deadline in 2010. The definition of the target includes sites in both “unfavourable recovering” and “favourable” condition. This means that even if the target is met, c 50% of SSSI area is expected to still be in “recovering” condition in 2010. Therefore, the SSSI
target should be retained and extended to ensure sites actually reach favourable condition after that
deadline, and to encourage action by all public bodies (eg. Local Authorities, MoD, Forestry Commission,
OFWAT) from whom work is required to deliver it.

7. Government credibility on the environment will be severely undermined if the existing Biodiversity
PSA targets are abandoned, or altered so as not to achieve their original aims. Threats to the environment
and biodiversity are not static, and climate change now presents a major new threat to the UK’s wildlife.
Therefore, we believe that a further Government target should be set to help the UK’s biodiversity adapt
to climate change.

8. The actions required to deliver the Farmland Bird and SSSI PSA targets are necessary, but insufficient,
measures to specifically address two issues of rapidly growing importance to human well-being and
biodiversity conservation: (1) the provision of ecosystem services from natural and semi-natural systems and
(2) enhancement of the resilience of the UK’s biodiversity to the effects of climate change. In addition, we
believe a new target is needed for substantial habitat creation.

9. A new habitat creation target would conserve many species that are currently declining and/or
threatened, improve the extent to which biodiversity adapts successfully to climate change, and can deliver
significant benefits in terms of ecosystem services and quality of life. We suggest that it will be important to
ensure that targets reflect effective biodiversity conservation—to stop the rot, protect the best and restore
the rest. We therefore suggest that Defra takes forward three public service agreement targets, under the
objective of protecting and enhancing nature and natural resources:

   — Reversing the long-term decline in the number of farmland birds by 2020.

   — Achieve and maintain favourable condition (NOT “recovering” condition) on 95% of all
     nationally important wildlife sites.

   — Increase the area of priority habitats by 2020 (Habitat index to be defined).

January 2007

Memorandum submitted by I CAN

SUMMARY

   — Communication disability is an enormously expensive problem affecting individuals and families,
     as well as being a significant drain on government revenue.

   — I CAN supports children, parents and professionals in identifying and addressing speech and
     language difficulties, with both those with a persistent communication disability and those with
     transient difficulties.

   — Presently a coordinated framework for children with speech and language difficulties does not exist
     despite the significant benefits that would be derived from early intervention and targeted support.

   — It is crucial that as part of the Comprehensive Spending Review and the Review of Services for
     Disabled Children that the financial benefits of early support for children without effective oral
     language skills is examined and the necessary investments made to ensure greater outlay can be
     avoided over the longer-term.

INTRODUCTION

1.1 I CAN helps children communicate; the 21st century life skill. With one in ten children in the UK (1.2
million children) having a communication disability and many more with less than ‘good’ communication
skills, there is a clear need to focus on the difficulties faced by this group and to find ways of addressing
impoverished language and communication disability.

1.2 I CAN welcome the Comprehensive Spending Review and regard it as a helpful opportunity to look
again at budgetary allocations. I CAN’S focus is on health and education where we welcome the amount of
extra investment the government has committed to public services. We note with concern however that for
the poorest children and families the necessary reforms are still not entrenched to ensure each and every
child with a communication disability has access to high quality services.

1.3 Our work provides a combination of specialist therapy and education for children with the most
severe and complex disabilities, and services to support communication development for all children by
providing information for parents and training and advice for teachers and other professionals. By 2008 I
CAN aims to have reached over 60,000 children, 300,000 families and 250,000 professionals.
THE COST OF COMMUNICATION DISABILITIES

2.1 As many as 10% of all children and young people have some form of long-term persistent speech, language and communication impairment2.

2.2 A significant group of children start school with impoverished levels of language. As one example, in Stoke on Trent, up to 84% of children start school without the language and communication skills they need for learning and to underpin literacy3. Some 50% of children start school lacking the communication skills that are vital for an effective start to learning4. However, these difficulties can be described as “transient” in that, with the right intervention, these children could go on to catch up with their peers.

2.3 Children with early language disorders are approximately five times more likely to have academic difficulties severe enough to be classified as learning disabilities compared to their peers and 50-90% of children with a primary language difficulty go on to have reading difficulties5.

2.4 The UK continues to invest nearly three times as much per student in higher education as it does per child under five6.

2.5 A study by the Audit Commission7 showed that investing £42,243 in speech and language support, coupled with an educational psychologist for a child aged five saved £111,444 for a child at risk of exclusion even where the child did not come into contact with the criminal justice system.

2.6 An American study8 which examined the financial benefits of early and intensive support, with language development as a key element, showed long-term benefits and healthy returns for investment of public money ranging from 4:1 (eg $4 benefit for every $1 spent) to a ratio of 17:1.

2.7 A recent study produced by I CAN9 concludes that leaving speech and language problems unaddressed for children in the present reception class of 2006 could cost nearly £4 billion over their lifetimes.

RECOMMENDATIONS

3.1 The government must ensure that the poorest 20% of children are able to access Sure Start services through the network of Children’s Centres and whilst I CAN congratulates the government on the Sure Start scheme, it is important that it does not become the preserve of the middle classes and is accessible to all.

3.2 The Comprehensive Spending Review must look at whole-life costs and compare the costs of early intervention with long-term fiscal ramifications. For instance, it is vital that children with a communication disability are given specialist provision based upon need and not available resource. It is equally important that the current “postcode lottery” which exists for speech and language support, comes to an end.

3.3 The government should endorse the recommendations made in the Gershon Review over partnership working with the Third Sector (page 39 of Value for Money in the Comprehensive Spending Review) as well as examine what capacity the sector has to deliver services, bringing resources to the partnership, to support Departments or programmes.

3.4 The government should ensure that a challenging Public Service Agreement for access to support for children with a communication disability is in place, as well as aiming to reduce the number of children entering school without the speech and language skills necessary to learn and prosper.

October 2006

Memorandum submitted by the Health Foundation

Thank you for the opportunity to contribute to the Treasury Committee’s inquiry on the Comprehensive Spending Review.

As you may be aware, The Health Foundation is an independent charity which aims to make a demonstrable difference to the quality of healthcare across the United Kingdom. To that end we spend about £20 million each year on programmes designed to improve the quality of healthcare through leadership development, demonstration projects across the NHS, commissioned research, and evaluation studies.

3 www.stokespeaksout.co.uk
4 Basic Skills Agency (2002) Summary Report of Survey into Young People’s Skills on Entry to Education.
We welcome the consideration the Government gives in Releasing the resources to meet the challenges ahead to develop the Public Service Agreements (PSA) to foster improvements in service quality. The Health Foundation is funding a number of research projects which may be of relevance to this inquiry and we would be happy to facilitate contact with the researchers.

The Foundation is funding a £2.4 million programme of work, Quest for Quality and Improved Performance (QQUIP), which focuses on how well the NHS is performing in terms of its effectiveness, safety, responsiveness, efficiency, equity of access to care.

As part of this programme we have funded a review of the evidence about regulation and healthcare quality improvement. This suggests that challenging targets, combined with other performance management interventions, are effective. For instance, waiting time targets in England required all patients for elective in-patient surgery to be seen within nine months by 2004. In March 2005 only 65 patients were reported as missing this target. Furthermore, the improvement in England was markedly better than other UK countries where targets are less stringent.

In developing new PSA targets, our review of the evidence indicates that targets appear to work best when the number set is modest and focused on specific objectives. This can be difficult to realise in practice, for example, the relatively modest set of 14 Public Service Agreement targets for health in England in 2004 were translated into 206 health targets and measures for NHS Trusts and PCTs. The full review of the evidence is available on our website: http://www.health.org.uk/aboutus/publications/index.cfm?dsp=—page=researchreports.

As well as the review of regulation, you may be interested in the Value for Money analyses. The research teams are investigating the link between expenditure and outputs, and then the link between outputs and outcomes, for different disease areas such as diabetes and stroke. This information will enable critical examination of current practices in the NHS, future priorities as stated in NHS national service frameworks (NSFs), and comparisons of England with other countries. In 2007, QQUIP will attempt to estimate the costs and benefits of treating different diseases so that healthcare decision makers can make comparisons and informed decisions about resource allocation.

I hope this is helpful and do get in touch if you would like further information about this project or The Health Foundation.

October 2006

Memorandum submitted by the London Borough of Barking and Dagenham

EXECUTIVE SUMMARY

— LBBD believes that the Comprehensive Spending Review is an opportunity to introduce new Public Service Agreement targets (PSAs) that share the priorities of growth across departments and ensure that resources come forward in a timely and co-ordinated manner.

— The Thames Gateway, of which LBBD is at the heart, is an area of key strategic importance for both London and for the UK.

— Regeneration development in the Thames Gateway will help to ensure that prosperity is shared more evenly between east and west in London.

— The London Borough of Barking and Dagenham (LBBD) has concerns that Government Departments do not currently share the priorities of growth—this means that housing developments are proceeding ahead of funding commitments for the necessary supporting infrastructure eg transport, schools, healthcare etc.

— LBBD is concerned about a funding gap for this supporting infrastructure and is concerned that the proposed Planning Gain Supplement will deter development and will reduce developer contributions.

1. About the London Borough of Barking and Dagenham

1.1 In the next 20 years, the LBBD will undergo its biggest transformation since the Borough was first industrialised and urbanised. The Thames Gateway, of which the Borough is at the heart, is the largest regeneration area in Europe. It is crucial to the Government’s plans to develop sustainable communities in the south-east and to the London Mayor’s ambition to ensure prosperity is more evenly shared between east and west in London.

1.2 LBBD contains the UK’s biggest brownfield regeneration site at Barking Riverside and the future home of London’s environmental technologies at Dagenham Dock. A major sustainable community will be developed at Barking Riverside, and Barking Town Centre will be revitalised to become the town centre of choice for the new communities.
1.3 The Comprehensive Spending Review is of considerable interest to LBBD because it will:
— set out the priority areas for funding based on the conclusions and feedback from a variety of reviews being undertaken (e.g., Leitch, Barker, Eddington);
— involve conducting a series of zero-based reviews of departments’ baseline expenditure, which will take a radical look at the way that government spends money on policies and programmes a decade on from the first CSR; and
— will create a new framework of Public Service Agreements.

1.4 LBBD’s main concerns are that:
— infrastructure must come on stream to support the extra houses planned for the Borough and Thames Gateway. This necessitates sustained and targeted funding;
— there is currently uncertainty of funding which stalls developments and affects developer and planning authority confidence; and
— there is a skills problem in LBBD which needs addressing and which requires investment.

1.5 LBBD believes that the Comprehensive Spending Review presents a good opportunity to ensure that spending departments across the policy spectrum share the priorities of growth and bring forward resources in a timely and joined-up manner through a new era of Public Service Agreements.

1.6 The Comprehensive Spending Review is the best opportunity for the Government to provide a medium term commitment to sustained and progressive investment in the Thames Gateway and the other growth areas, giving certainty to developers, planning authorities and to the communities that are affected.

2. Funding Growth: Infrastructure with Expansion

2.1 The Thames Gateway is a site of strategic importance both in terms of London and in terms of the Government’s national house-building programme. Building a sustainable and expanding community, however, requires more than just houses. With houses must come the supporting infrastructure—transport, schools, hospitals and GP centres, and adequate cultural and leisure facilities.

2.2 The Thames Gateway project has to be adequately resourced in the correct proportions and in the right timescales. Funds must be allocated in proportion to, and in recognition of, the demands that will be placed on particular areas within the Thames Gateway. LBBD would like to see the new set of Public Service Agreement targets make explicit reference to the Thames Gateway as a spatial entity and as a specific growth area with additional growth and funding pressures.

2.3 The “Supporting Housing Growth” review (launched in late June 2006) was a limited attempt from HM Treasury to address the issue of the cost of infrastructure, and how government can improve the way Departments currently plan for the infrastructure to support sustainable housing growth.

2.4 LBBD believes that the role of central Government is pivotal to the successful delivery of the infrastructure to support growth. In particular, Government needs to:
— take a medium to long-term approach;
— ensure that the priority of growth is shared across departments in their PSAs; and
— ensure that Revenue Support Grant does not prejudice authorities in Growth Areas.

2.5 In LBBD’s experience, the biggest problem is co-ordinating transport infrastructure funding with housing development. Funding commitment for the necessary transport infrastructure comes in after housing development. There is therefore a gap in the revenue stream to support public transport (see Barking Riverside case study).

2.6 LBBD therefore sees the Comprehensive Spending Review as an opportunity to provide a medium-term funding commitment for the supporting infrastructure and to give certainty of delivery timescales to planning authorities and developers.

2.7 This is particularly important because of the Government’s proposal to introduce a Planning Gain Supplement (PGS), which LBBD believes would remove the existing direct link between development proposals and community benefits, infrastructure improvements and mitigation measures, and would introduce uncertainty to developers and planning authorities alike. There is no guarantee that funds raised locally from developments will be returned to the area in which they are raised.

2.8 A switch to a planning levy from section 106 contributions could seriously reduce developer contributions—especially in areas like LBBD where developer activity is likely to be high. A recent study by property consultancy Knight Frank, which was commissioned by an alliance including the British Property Federation and the Confederation of British Industry, indicated that switching to PGS could result in less revenue being raised than from the current planning system. LBBD is therefore concerned that there would be a subsequent funding shortfall for the provision of transport and social infrastructure.
3. **Barking Riverside: a case study**

3.1 Barking Riverside is one of the largest development sites in London (324 hectares). Over the next 15 to 20 years the plan is to build about 11,000 new homes to house a new community of around 25,000. To ensure the sustainability of this new community, the development must include the highest quality new strategic transport links such as East London Transit (ELT) and the Docklands Light Railway (DLR).

3.2 The extension of the DLR to Barking Riverside is a key lever of regeneration in the western part of the Gateway and deserves high priority in terms of funding. The extension would help to lift the value of the site at Barking Riverside. We believe this is an essential prerequisite for attracting development interest and bringing the site on stream so creating a “win-win” situation where a successful commercial development can take place, which at the same time meets essential Government and public policy objectives—re using “brownfield” sites and meeting housing, regeneration and growth targets in a sustainable way. As well as giving a commercial return, the lift in value can also be captured to the public sector through mechanisms such as s106 agreements, so in turn at least part paying for the public investment (in transport) that helped raise the land value. Such an agreement will be made as part of any planning consent for Barking Riverside.

3.3 The model we have in mind is Greenwich Peninsula—a once highly polluted ex-gas works site which has undergone comprehensive, quality and sustainable public transport-orientated redevelopment with housing, new parks and an improved waterfront; for which an essential precursor was the arrival of the Jubilee Line tube scheme (also an essential precursor to the Millennium Dome). It is worth noting that when first planned, the Jubilee Line did not have a station proposed at the Peninsula. Greenwich Council petitioned the Jubilee Line Bill to secure a station—the case being made mainly on development and regeneration grounds rather than transport (there were no people then living there and so no existing ridership case to be made).

3.4 The extension of the DLR needs to be given the earliest possible go-ahead because of the impact that it would have on regeneration. It would lead to a faster turnaround of the area and would enable a higher quality of housing to be built. Without the extension of the DLR, the new development at Barking Riverside will be difficult to support in a way that does not depend on the use of the car, and the scale and size of the development that is envisaged may not be supported at approval stage.

3.5 Thus, the extension of the Docklands Light Railway (DLR) to Barking Riverside is a core element of the delivery of the regeneration of Barking and Dagenham.

4. **Reform of Public Service Agreements**

4.1 90% of Public Service Agreement targets are due to come to an end during the forthcoming spending period—most of them in 2008.

4.2 LBBD is supportive of the Government’s stated intention (in the July document on the CSR) to reform the PSAs so that the new framework strikes “a balance between setting clear objectives for national priorities with the flexibility to allow greater devolution, accountability and participation.”

4.3 LBBD also supports the Government’s intention to ensure that the “central focus on key priority outcomes in the PSA framework is complemented by further measures to improve the capacity, capability, skills and ambition of departments to deliver efficiently and effectively across the full range of their business, including supporting improved financial management through greater understanding of the link between departmental performance and resources.”

4.4 Current Public Service Agreement targets are not to any great extent cross-departmental and do not (in the context of delivering growth and infrastructure to growth areas) share priorities across government.

4.5 For instance, whilst PSA Target 5 for the former Office of the Deputy Prime Minister states:

> “Achieve a better balance between housing availability and the demand for housing, including improving affordability, in all English regions while protecting valuable countryside around our towns, cities and in the green belt and the sustainability of towns and cities” . . .

. . . there are no related PSA targets for other departments in the following areas:

- no target for the Department for Education and Skills to build more schools and ensure adequate resources to cope with housing and population growth;
- no target for the Department for Transport to fund additional capacity to cope with particular demands in growth areas;
- No measurable targets for the Department for Transport to affect modal shift from car to public transport and/or rail; and
- no priority for increasing health services capacity in areas experiencing growth.

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10 “Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review”, HM Treasury, July 2006, see p42.

11 “Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review”, HM Treasury, July 2006, see p42.
4.6 LBBD believes that the new PSAs need to make explicit reference to the Thames Gateway and the other growth areas as priorities in PSAs for the Department for Communities and Local Government, the Department for Transport, the Department for Education and Skills, the Department of Trade and Industry, HM Treasury, the Department of Health thereby sharing priorities and delivery timescales across departments.

4.7 In terms of processes, HM Treasury needs to put in place outcome-based PSAs that set shared priorities across departments. Cross-cutting budget setting and cross-cutting PSAs need to make every pound deliver more in compatible delivery timescales.

5. Conclusions

5.1 The Council welcomes this opportunity to make a contribution to this Inquiry.

5.2 We believe the Thames Gateway and major sites like Barking Riverside represent a seminal opportunity to achieve Government housing; growth; regeneration; employment and skills development; and sustainability policies and objectives. The Thames Gateway initiative commands widespread support from the London Mayor and GLA; local boroughs; other public and private agencies; business; and local people and communities.

5.3 The CSR and PSA reform can play a key role in delivering this agenda in a planned, coordinated and coherent way across Government departments and agencies, in turn giving local agencies and the development industry the confidence and assurance to play their part.

October 2006

Memorandum submitted by the Institution of Engineering and Technology (IET)

Thank you for the opportunity to comment on the Treasury document: “Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review” (Cm 6889).

Whilst the IET supports the vision set out earlier by the Cabinet Office in their strategy paper on Transformational Government, we are nevertheless concerned that the Treasury is relying too heavily on ICT-enabled business change to make early cost savings. The IET believes that the quality and responsiveness of many public sector services can be improved by business change programmes facilitated by new ICT systems, whilst at the same time lowering long-term unit costs. However, this will not be achieved without major investment in “people” and “process” to realise the potential available.

The IET has in excess of 125,000 members worldwide drawn from a broad range of science and engineering disciplines, of whom approximately 25% work in IT. The membership represents a wide range of expertise, from technical experts to business leaders, encompassing a wealth of professional experience and knowledge, independent of commercial interests. This evidence has been prepared on behalf of the Institution’s Trustees, after inviting input from its membership.

1. The IET evidence focuses on the Treasury document: “Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review” (Cm 6889).

The IET supports the Government’s aims, but has severe reservations about implementation

2. Whilst the IET supports the vision set out earlier by the Cabinet Office in their strategy paper on Transformational Government, we are nevertheless concerned at the over reliance in the Comprehensive Spending Review document on ICT-enabled business change to make early cost savings. We are concerned that, in general, there has been inadequate recognition of the associated costs of “people” and “process” change required to achieve the full “Business Change” intended, and that without this it is unrealistic to expect the full benefits to be realised.

There is no such thing as an ICT project, only business change projects requiring investment in people, process and ICT

3. Our professional opinion is that to deliver effective and sustainable change, the ICT element is likely to represent the minority of the programme investment, with spending on people and process likely to be between one and four times greater than IT, dependent on the nature of the service to be delivered. Short-term costs are likely to rise rather than fall as old and new approaches operate in parallel during testing and transition. To ignore the need for proving and parallel running (with options for fallback) is a recipe for disaster. Thus a business change project should be seen as a long-term investment in improved efficiency not as a vehicle for early cost cuts.

4. In practice, the organisation and people change elements include: determination of end-user requirements, satisfaction surveys, business process re-engineering; operating costs, personnel selection and security, job and team redesign; organisation restructuring; interoperability; overcoming cultural resistance;
locums; training; rebuilding performance measurement and pay structures; challenging disincentives in old business models, creating champions, etc, etc . . . Experience in the private sector makes clear that successful change is business rather than technology led and has to be championed at the highest level.

5. The degree of data cleansing required for services to be successfully integrated may also exceed estimates.

**Extensive savings are possible but their realisation will take longer**

6. We would challenge the assertion that the timescales for the CSR are sufficiently long for the projected savings to be made. In order to make savings at the latest by 2010–2011, from primary investment starting in 2008–09, most projects need to be in their detailed planning and preparation phases over the next year. The implication of this would be a bunching of project initiatives that could put undue strain on the capacity and resources of Government change management and ICT professionals. Similarly we would welcome the breakdown of Government “mega-projects” into a sequential series of smaller projects, each with its benefits realisation plan clearly established, that can be implemented quickly (eg in less than one year) drawing extensively on the re-use of standard objects and packages. This will avoid the challenge of “obsolescence before availability”.

**Shared Services require new models for responsiveness and accountability**

7. Section 3.4 of the Treasury document states that “moving to a shared services model can generate significant savings”. Whilst private sector benchmarks and experience generally support this assertion, it will only be true if best practice is followed in investment in people and process to genuinely empower the shared service providers with the necessary information, contacts and devolved decision making to genuinely support users. Similarly a supportive framework of accountability is required at “Accounting Officer” level. At present there are perverse incentives for Departments to operate in silos and to duplicate rather than co-operate. Robust mechanisms are required to facilitate benefits sharing where cost-incurring action by one Department is required to facilitate larger savings in another Department.

**Access to skills is every bit as important as the availability of budget**

8. Section 5.2 of the Treasury document states that £800 million has been set aside for transformation costs in HMRC, DWP, Cabinet Office & HM Treasury. The Select Committee may wish to enquire what is covered by this sum. But in doing so, they should bear in mind the comment from John Suffolk, Government CIO, who said (in *Computer Weekly*, 1 August 2006) “Our biggest concern in not about cash, it is about the amount of skills we have in government, and in private sector organisations. This is not just about outsourcing to a third party, you still need all the same change management people in house, the same accountability in-house. We do not have enough . . . .”

**Recommendations**

9. Our primary recommendation is that the Cabinet Committee PSX(e), chaired by Chief Secretary Stephen Timms, should use the criterion of whether projects have been defined holistically (eg people and process investment correctly budgeted alongside the ICT) and have clear benefits realisation plans, as the key element in prioritisation. Those that do not should be sent back to Departments for re-planning and their resources given to those projects that do—even where this means budget transfers between Departments. Failure to pass this initial test would not represent a judgement on the validity or importance of the change being pursued, merely recognition that if the full business change required has not been realistically scoped and budgeted, the risk of failure is unacceptably high whatever the political imperative. Projects should be resubmitted in later years once the necessary groundwork has been carried out.

10. We similarly recommend that the scope of OGC Gateway Reviews be extended to include all of these “people” issues and business change elements, and in particular realistic budgeting, (as is already starting to happen less formally for some projects). No project should pass the basic “Gate Zero” without clear and costed plans to manage the people and process change associated with ICT investment. Well-founded benefits realisation plans must also be a mandatory requirement.

**Conclusion**

11. The IET believes that the quality and responsiveness of many public sector services can be improved by business change programmes facilitated by new ICT systems, whilst at the same time lowering long-term unit costs. However, this will not be achieved without major investment in “people” and “process” to realise the potential available. We would be happy to expand on these points before your Committee if required.

*October 2006*
**EXECUTIVE SUMMARY**

1. Under the Comprehensive Spending Review, greater value for money can be accrued from the more efficient and effective delivery of public services.

2. The discussion around public service reform rightly focuses on the issue of customer choice. This increases the pressure on service providers to find better ways to meet the needs of recipients of public services more and more effectively. There must be more focus on developing effective working relationships—driven by the service to the customer, not stakeholder convenience—which meet the needs of people using public services.

3. Strong, effective partnership work is taking place across the public, private and voluntary/community sectors. It is the way forward for securing better value for money.

4. Better focused involvement of all service providers in public service reform will have a positive effect on the development of future policy and strategy, driving up service quality, identifying failing markets and interacting with disengaged customer groups.

5. Increased engagement at design stage would greatly improve deliverability. Whilst there is consensus that a customer-focused approach is required, most design functions shy away from actively engaging with stakeholders.

6. Many public sector organisations can benefit from focused short term pilots as an alternative to a plethora of “issue based” projects.

7. There is a challenge to continuously improve public procurement in many sectors and increase accessibility for new and established suppliers. In many areas of innovation, in the design and delivery of services, it is essential that procurement teams include individuals with the ability to assess the risks and feasibility of new service provision. The private sector, acting in a consultancy or non-executive role on procurement panels, could play a stronger role in gaining better value for the taxpayer.

8. Both the Government and suppliers would benefit greatly in terms of efficiency if there was more consistency in the criteria used by departments and agencies to measure performance in the delivery of public service contracts. Increasingly, better joint working across the public, private and voluntary/community sector is bringing a focus on a shared vision for outcomes rather than simple measurement of input/output.

**INTRODUCTION**

9. A4e Ltd welcomes the opportunity to submit written evidence to the Treasury Committee on issues emerging from the debate surrounding the Comprehensive Spending Review. The inquiry’s terms of reference refer to the National Debate which was announced in the 2006 Budget and in September, A4e made a full written submission to HM Treasury as part of the debate, copies of which can be downloaded from our website. This memorandum therefore draws from that submission.

10. Our contribution to the debate focuses on how greater value for money can be accrued from the more efficient and effective delivery of public services.

11. Putting the customer at the heart of all our services—whether the customer is an individual, a business, community organisation or voluntary and charitable organisation—has been key to the evolution of A4e. The discussion around public service reform rightly focuses on the issue of customer choice. This increases the pressure on service providers to find better ways to meet the needs of recipients of public services more and more effectively. Increasingly this requires strong collaboration by a range of stakeholders to provide exceptional, joined up services.

**PARTNERSHIPS FOR EFFECTIVE DELIVERY OF PUBLIC SERVICES**

12. There must be more focus on developing effective working relationships—driven by the service to the customer, not stakeholder convenience—which meet the needs of people using public services. Such debate leads to the consideration of the role of the public, private and community/voluntary sectors (VCS). Our experience in the UK and overseas (in all the market sectors where we work) is that effective public service delivery, and therefore reform, is never about work being undertaken by either public or private or VCS organisations. Effective delivery requires input from all these parties. Each sector has an important role to play, bringing their skills to the sector in which they work. Effective integration and collaboration at a strategic and operational level is the key to successful service delivery.

13. In different areas of public service delivery, the public, VCS and private organisations have a variety of roles and bring unique skills to the market. However, successful interaction between all three sectors is essential to meet customer’s needs. There are many really good examples of joint working arrangements in the sectors where we work. However, across all our public services in the UK and particularly in areas of reform, much more needs to be done to continuously improve the services that we supply to the users of public services.
14. Our September submission to the Treasury offered a contemporary collection of case studies and examples of innovative partnership work in the delivery of public services. It illustrated new ways of working that are being tested in different areas of public policy. From the emergent role of Prime Contractors in the post-16 learning agenda and New Deal service delivery, to the development of “Life Academies” for those at risk of exclusion from school, there is a common thread, namely that strong, effective partnership work is taking place across the public, private and VC sectors. It is the way forward for securing better value for money.

Feeding Frontline Delivery Experience into Policy Formulation

15. A4e’s research strategy is to build a robust empirical framework through which we aim to contribute to bringing a fresh approach to the creation of public policy, as well as its implementation and delivery. It is important that practitioners work alongside policy makers to bring an evidence-based rigour to public service reform. Equally, it is critical that partnerships encompass the expertise of the public, private and voluntary/community sector and maintain a focus on what the customer actually needs.

16. Organisations that work with customers everyday develop an implicit understanding of the barriers that they face. We have a responsibility to ensure that this learning is fed into the policy development and ensure that our clients’ views are articulated in that process. The early involvement of partner organisations such as A4e, who have a track record of delivering both general and niche provision across a range of government sectors, can have significant added value into policy debate. Better focused involvement of all service providers in public service reform will have a positive effect on the development of future policy and strategy, driving up service quality, identifying failing markets and interacting with disengaged customer groups.

17. From our own involvement in policy formulation and development, the design, implementation and delivery of services, as well as evaluation of a range of initiatives, A4e puts forward the following suggestions:

Policy design

18. Increased engagement at design stage would greatly improve deliverability. Whilst there is consensus that a customer-focused approach is required, most design functions shy away from actively engaging with stakeholders. Such engagement not only brings better design, but better buy-in at implementation and a shared vision that brings better focus on objectives.

19. Closer initial work to manage risk would clarify the relationship between stakeholders. The private sector would welcome earlier involvement in piloting initiatives that can capture their skills and spread the risks more appropriately between the stakeholders. A mature approach to shared risk would create an effective learning environment reflecting the importance of failure as a key part of the development cycle.

20. A continuous process is key to developing a “self-improving” public service reform model. The formation of policy must be a consistent and continuous process including the marketing of results to key stakeholders as part of the iterative cycle. Successful design processes are not always transferable to other delivery mechanisms due to issues such as geography and demographics.

21. Providing flexible frameworks would enable more rapid deployment. Government has a key role to play in performance management and capacity building to improve services, but this is sometimes seen as being in competition to the “new localism” of the demand led (bottom up) approach. There is an opportunity to provide an appropriate “pick ‘n’ mix” of interventions from key public sector partners. This will enable better local procurement, maintaining essential delivery scale and experience and ensure strategic bodies can focus on their responsibilities.

Programme pilots

22. Many public sector organisations can benefit from focused short term pilots as an alternative to a plethora of “issue based” projects. Effective analysis of pilot outcomes must lead to speedier take up of “mainstreaming” service innovation to drive public sector reforms.

23. Pilots developed and designed by partnerships can subsequently be put out to tender on a larger scale if successful. Providing freedom to innovative and creative organisations in the public, private and voluntary/community sectors can result in much quicker service improvement and encourage greater sharing of ideas and good practice.
Tendering

24. There is a challenge to continuously improve public procurement in many sectors and increase accessibility for new and established suppliers. However, different markets and challenges require alternative procurement solutions. A blueprint for a procurement model should not be set in stone across different public sector agencies and the strengths and weaknesses of different procurement models need to be fully understood in the context of supplier chains and supplier development programmes.

25. Government departments and funding agencies should review the ways in which they take account of the past performance of the delivery organisations. In addition the assessment of financial probity and independent audits of quality by public bodies need to be more closely aligned to procurement decisions and tender awards. The skills and knowledge required for effective public procurement needs to be continuously reviewed, acknowledged, valued and updated. In many areas of innovation, in the design and delivery of services, it is essential that procurement teams include individuals with the ability to assess the risks and feasibility of new service provision. The private sector, acting in a consultancy or non-executive role on procurement panels, could play a stronger role in gaining better value for the taxpayer.

26. More demands can be made of potential suppliers, prior to public sector tenders, to share ideas and expertise to support public sector delivery, particularly in new areas. For example, in Israel the government sought response from all interested suppliers prior to finalising the “Invitation to Tender” for a new welfare to work programme and sifted through responses to identify ideas that they wanted to include in their programme design. This “free consultancy” was well received by all bidders and enabled practical, international delivery expertise to be secured in a very different format to a more formal “consultation” process.

Programme management

27. Building effective networks is key to public service partnerships. Leading delivery organisations embed their services in communities and this ethos has been at the heart of A4e’s work. Suppliers need to embrace local partners and ensure that there are effective working arrangements in place before the programme starts. Less experienced or smaller partners can become stronger through collaboration or formal alliances.

28. People on all sides of management and delivery need to be flexible in their approach. Partnership does not mean “do what we say”. Equally, new partners often need to be brought into public service areas that require more focus and improvement. All stakeholders need the maturity not to be parochial in their approach.

29. Both the Government and suppliers would benefit greatly in terms of efficiency if there was more consistency in the criteria used by departments and agencies to measure performance in the delivery of public service contracts. Increasingly, better joint working across the public, private and voluntary/community sector is bringing a focus on a shared vision for outcomes rather than simple measurement of input/output. Funding agencies should give more feedback on reasons for the success or non-success of a programme to help inform programme design for the future. Often, the experience of suppliers is overlooked in designing more effective service delivery models.

30. Much of A4e’s work across its different customer segments and markets has a common theme—to reduce dependency and increase self sufficiency. The Government should continue to promote and encourage successful public service partnerships, involving public, private and voluntary providers. This provides a framework to develop ever more efficient ways of delivering services to the public and improving the quality of service.

October 2006

Evidence submitted by Special Interest Group of Municipal Authorities (SIGOMA)

SIGOMA

1. SIGOMA, the Special Interest Group of Municipal Authorities, is a network of 46 local authorities representing large towns and cities in the northern, midland and south coast regions of England.

SUMMARY

2. The Treasury report, Releasing the Resources to Meet the Challenges Ahead, along with recent ministerial announcements underlines the importance of targeting limited public spending to areas of need and areas with that will meet the Government’s PSA targets. Given the limited increase in public spending, and the targets for greater efficiency savings, this means that the Comprehensive Spending Review will need
to be carried out in line with clear, high level objectives that seek to ensure that no one is disadvantaged by where they live and that economic growth is supported, especially in areas that will help to close regional disparities so that PSA targets can be met and social exclusion tackled.

3. Turning to the conduct of the CSR2007 and the national debate surrounding it, SIGOMA would like to see greater emphasis on the short fall of funding in England’s larger towns and cities, represented by SIGOMA. For example, the Government’s own figures reveal that local authority funding in SIGOMA areas is about £670 million below levels of calculated need, which translates into significant under-funding for important public local services like social services and education. On wider public spending, SIGOMA would also like to see greater emphasis in CSR2007 on the mis-match between public investment and economic and social disparity. This is typified in the important sector of transport spending, which is central to local and regional work to generate economic growth. In this case, the London region receives around three times the amount of spending per-head of population than the north east, despite the need for public investment in this area to close the economic gaps between the regions. This pattern is replicated in other important areas of spending and demonstrates the lack of progress in targeting spending where it can make an impact on PSA targets.

4. Overall, therefore, we conclude that public spending could be better used to support PSA targets in CSR2007. SIGOMA supports the need for a small number of high level PSA target and would like to see the Government’s performance against PSA used to help direct priorities in the spending review.

**Issues arising from the Treasury document releasing the resources to meet the challenges ahead**

5. The Treasury report and other announcements by Treasury Ministers in recent months set the direction of travel for the CSR2007. Four features are particularly important in shaping the ongoing review. These are:

- **A very tight spending round:** CSR2007 is to see a 2% increase per year in public spending, as opposed to the 5% in previous spending rounds.
- **Ongoing efficiency savings:** based on the findings of value for money reviews, the Government has identified scope to deliver further savings of at least 2.5% per year over the CSR07 period.
- **Zero based reviews:** Government departments are conducting zero-based reviews of their baseline spending to examine all the opportunities for transforming service delivery across government.
- **Tight public pay settlements:** pay settlements across the public sector will be based on the inflation target of 2%.

6. For local authorities in SIGOMA this raises a number of issues, each of which will need to be considered in detail as part of CSR2007.

**Targeting public money**

7. The emphasis on efficiency targets and the limit of 2% in overall public spending for CSR2007 sets the scene for a very tight round of public spending agreements, particularly in contrast to previous spending reviews. As such, it becomes increasingly important for the Government to ensure that public money is targeted to areas that need it most and areas that will help to ensure that PSA targets are met. SIGOMA would suggest that can still be improved in terms of local government funding, as the examples in the following section make clear, and that there is still an overall mis-match between spending, areas of need and PSA targets.

**Pressures on local services**

8. The Treasury document notes the success that local government has had in contributing to public spending efficiency targets. Although local government has met its efficiency targets over recent years, SIGOMA areas will increasingly struggle to meet further efficiency targets because of the increasing pressure and additional pressures on their spending, which look set to cause increased costs to services. For example, these include:

8.1 **Social Services**

There is continuing pressure on local children’s services in implementing “Every Child matters” and creating a more, personalised, child centred approach as well as improving the outcomes for looked after children and making earlier interventions for vulnerable children and their families. For adults, there continues to be pressures around above average inflation increases in charges from private care providers, fuelled by additional requirements in care standards. There are also growing numbers of adult clients using local authority services and these demographic pressures look set to continue, with particular problems in learning disability placements.
8.2 Pay and workforce restructuring

Local authorities currently going through the process of implementing “single status” for all pay scales and equal pay across their authorities are currently facing both the costs of implementing this policy as well as many equal pay back-claims. Many councils still have a number of outstanding back-claims for pay to settle and have difficulty in estimating the total cost of the single status exercise.

8.3 Increasing waste volumes

Local authorities in SIGOMA are improving the way that domestic and commercial waste is managed, increasing recycling rates and reducing the amount of waste taken to landfill to meet national targets. Although this is a priority for urban areas, it also creates significant additional costs to local authorities which have to be met through mainstream budgets. Overall waste volumes are increasing and there are an increasing number of waste types with extensive new legislation on their collection and disposal.

8.4 Liveability

An attractive environment and well-managed public spaces are vital to attracting people and investment into urban areas. The quality of the built environment and the way that our streets and public spaces are managed is also becoming an increasingly important part of an areas’ economic development strategy. But this area of funding has consistently been the poor relation in annual local government settlements, with SIGOMA areas receiving some of the poorest rises in central government grant over recent years.

Locally raised funding

9. Given the wide ranging review being carried out by Sir Michael Lyons into the future and funding of local government, as well as the policy reviews mentioned in the Treasury report, there has been a greater focus on the potential for local areas to raise a greater proportion of funding for local services. This is to be welcomed and is part of the wider debate on the reform of local government and devolution from the centre to regions and local areas. However, SIGOMA maintains that whilst locally raised funding is important in raising some marginal expenditure, it cannot plug gaps in national funding and the lack of well targeted national funding to local areas. Hence, CSR2007 and the zero based reviews that will be taking place across government departments, provide a very real opportunity to make sure that local government is funded fairly and realistically.

The need for long term objectives

10. Building on the analysis of the Treasury report and the points above, we feel that CSR 2007 needs to ensure that these issues are addressed. It would therefore be helpful for the review to identify some long-term objectives for public spending around to inform all future work. We would suggest that these principles should include:

— targeting funding to areas of need: so that no one seriously disadvantaged by where they live; and
— reducing disparities and releasing the potential of all areas: supporting economic growth that closes the current disparities in performance and helps to meet PSA targets.

ISSUES RELATING TO THE CONDUCT OF THE CSR2007 AND THE NATIONAL DEBATE ForesHADOWED IN THE 2006 BUDGET

11. Over recent years the Government has increasingly recognised the inequities that exist within the systems for allocating funding to local communities and different public services. But, despite a commitment to close the gap between funding needs and funding allocation, significant disparities still face the country. In setting out its own agenda for 2006–08, SIGOMA has identified a number of “challenges for Government” that need to form part of the national debate on CSR2007. These are summarised here.12

Funding for local services

12. Although the Government has acknowledged the inequities and funding issues facing our communities, it has continued to “damp” back any fundamental changes to current funding patterns. This simply protects local areas that have historically been more “fortunate” in receiving public spending and inevitably delays any significant moves to close the “gaps” between local areas.

12 See SIGOMA Agenda 2006–08 published by SIGOMA and available on www.sigoma.gov.uk. Unless referenced otherwise, figures and data used in this section are drawn from this document.
13. In short, the Government has been successful in identifying the needs of today’s society but remains slow in delivering public spending to reflect this. In terms of Local Government Finance, the current system clearly highlights the need for more progress:

— recognised needs in SIGOMA local authorities suggest that they should receive 26.4% of the national total grant;
— in practice, SIGOMA areas received about 23.7% of the national total grant; and
— this means a total shortfall of £670m in resources to SIGOMA local authority areas.

14. For important local services like social services and education this can mean significant underfunding and funding inequalities.

— Over 2006–07, a school child in SIGOMA areas gets £347 less than a pupil in outer London and £1,465 less than a pupil in inner London.
— Failure to implement the new funding formulae for local social services means that, overall, communities in SIGOMA areas lose about £250 million.

15. Detailed analysis of health funding for primary care trusts also shows how communities in SIGOMA areas are also receiving around £200 million less for health services than the Government says that they need to deliver these services.

Wider public spending

16. Looking beyond local authority spending, CSR2007 will also need to come to terms with the ability of wider public spending to address disparities and key PSA targets on neighbourhood renewal and regional disparities. Although economic development and regeneration monies, like NRF, are clearly well targeted and making a big difference in SIGOMA areas, this is dwarfed by the amounts of public funding in other areas of spending important to wider economic growth. For example:13

— Transport spending per head is more than three times higher in London than in the north east, average spending in London is around £630 per head, compared to less than £300 in every other region.
— At £1,678 per head, London has the highest rate of health and education spending in the whole country.
— Funding for science and technology in London and the eastern region is around £60 per head, over twice the rate in the north west, the north east and the west midlands.

17. Taken together, these forms of public investment all make an important contribution to regeneration and economic development in our urban areas. SIGOMA would like to see CSR2007 coming forward with a more consistent national policy and spending regime that supports the Government’s regeneration aims, rather than working against them.

The importance of Neighbourhood Renewal Funding

18. Neighbourhood Renewal and regeneration are key to the success of the towns and cities in SIGOMA authority areas. Around a quarter of neighbourhoods in SIGOMA areas are in the most deprived 10% nationally, more than twice the rate that we would expect if deprivation were equally distributed around the country.

19. Clearly the NRF and other forms of non-mainstream, but well targeted, funding have been crucial in starting to address the complex deprivation issues that our communities face as well as providing resources for the most deprived communities across the country as a whole. Following extensive lobbying by SIGOMA, where we demonstrated the real benefits that the resources were delivering on the ground, the Government agreed to extend the original programme in the last spending review, providing a further two years of money.

20. Local Authorities are achieving results, working in partnership with other local agencies to tackle complex issues in their most deprived neighbourhoods. However this extended period for NRF is programmed to finish in April 2008. SIGOMA authorities currently receive some £325 million a year in support of services developed with our communities to deliver what is important both to the Government and people on the ground. This equates to about 3.5% of direct spending on local authority services in SIGOMA areas.

13 Figures taken from Public Expenditure Statistical Analyses 2006, published by HM Treasury and the ONS.
21. The implications of these resources not being available in future years will be immense. Crucial services will be lost and much of the progress that has been made to date in our most deprived neighbourhoods could be stopped. As such, CSR2007 will need to look at how NRF can be extended and continued, retaining the flexibility and simplicity that has enabled local authorities to make the most of this resource.

THE ROLE OF PUBLIC SERVICE AGREEMENTS (PSAS) AND PSA TARGETS IN THE COMPREHENSIVE SPENDING REVIEW

22. Public Service Agreements have a crucial role to play in CSR2007. SIGOMA sees the role of PSA targets as a means of measuring progress on key issues and ensuring that public spending is directed to areas of need and for greatest effect. PSA targets can therefore enable government to assess where spending needs to be increased and where it can be decreased.

23. Particularly important for SIGOMA are the PSA targets that focus on regional disparities, neighbourhood renewal and raising the performance of the worst performing groups or areas. These issues provide the context within which SIGOMA local authorities operate. Although the potential of northern and midland regions to the national economy is increasingly more understood, there is still little clarity in national policy on the long-term economic role of regions outside of London and the south-east. Local and regional partners in SIGOMA areas are helping to ensure significant improvements on many PSA targets, but regional gaps still persist with little sign of closing, whilst the majority of the country’s deprived deprived neighbourhoods are still concentrated in SIGOMA’s urban areas. This complex picture is illustrated in recent research by SIGOMA that reveals14:

— Although employment in SIGOMA areas is still below the national average, rates have continued to improve, even whilst rates in London and the South East have levelled off.
— Workers in London earn nearly £15,000 more per year than workers in SIGOMA areas and a larger proportion of households in SIGOMA areas still have to rely on state benefits to live reasonably.
— Big improvements have been made on life expectancy and coronary heart disease, but the gap between SIGOMA and the rest of the country has widened.
— Social care measures, such as the number of looked after children and teenage pregnancies, show that rates in SIGOMA areas are broadly similar to London and well above the national average.
— GCSE attainment is improving more quickly in SIGOMA areas than in the rest of the country, but 41 SIGOMA local authority areas have yet to reach national averages for GCSE A* to C grades.
— SIGOMA areas contain more than twice the proportion of very deprived communities than we would expect, and a quarter of all neighbourhoods in SIGOMA areas are in the country’s most deprived 10%.

24. Given these trends, we feel that the challenge for CSR2007 is to bring greater national clarity on the role of our towns and cities which lie outside London and the south east, so that local and regional bodies in these areas have the support they need to address disparities. With out this it is difficult to see how we can overcome the gaps in wealth currently facing the country.

25. Overall, we feel that this can be achieved by a smaller set of high-level, national PSA targets based on outcomes, rather than outputs, across the key social and economic issues. This would help Government to prioritise public spending to areas that need it most.

October 2006

Supplementary memorandum submitted by the Special Interest Group of Municipal Authorities (SIGOMA)

SUMMARY

1. SIGOMA, the Special Interest Group of Municipal Authorities, submitted written evidence to the Treasury Select Committee for their inquiry into the Comprehensive Spending Review in October last year. This supplementary evidence includes further points that arise in the light of the Treasury’s latest report on the Long term opportunities and challenges for the UK: analysis for the 2007 Comprehensive Spending Review.

14 See The SIGOMA Profile: a review of key issues across SIGOMA’s urban areas published by SIGOMA and available on www.SIGOMA.gov.uk
2. This Treasury report looks at five areas of change that present the key challenges to meeting the Governments policy objectives. SIGOMA would particularly like to emphasise some key issues for urban local authorities in the northern, midland and south coast regions of England, including:

Geography of inequalities: the importance of the geographical impacts of inequalities, between different localities and regions in England, which underlines the importance of SIGOMA’s demands for a clearer analysis of this issue and a long-term commitment to address it in CSR 2007.

Education, research and development: the critical importance of education, technology and enterprise in the increasingly global economy described in the report, which underlines SIGOMA demands for fairer public spending on education and better targeted investment in research and development.

Uncertainty and the need for ongoing discussions: the difficulty in assessing and quantifying the social impacts of the trends set out in the report, and the need for an ongoing dialogue with groups like SIGOMA as part of CSR 2007.

PSA targets: the ongoing need for a smaller, but higher level, set of public service agreement targets that are designed to address inequalities and ensure that every region contributes its full potential to the national economy.

ISSUES ARISING FROM THE TREASURY REPORT

The geography of inequalities

3. The report states that there was a dramatic increase in relative poverty and income inequality in the UK during the 80’s and 90’s and points out that the Government has been successful in stabilising the incomes of those at the bottom of the distribution in the past decade. It is particularly good to note the success of economic growth and Government policy in tackling child poverty and pensioner poverty (para 3.64) as well as the overall reduction in the proportion of households in relative poverty.

4. However, the report also notes that inequality has increased with the latter part of the 20th century seeing increased inequality in the UK and an ongoing trend for income inequality to increase, albeit at a slower rate that has now stabilised (para 2.19).

5. An important issue for SIGOMA areas is the ongoing inequalities across the country and the need to tackle the disparity in factors like income and employment rates that still remain between different regions. Some of these factors are described in more detail in the SIGOMA profile, which shows how overall employment rates in SIGOMA areas remain below the national average whilst employment rates in some towns and cities represented by SIGOMA are much lower than the average. Similarly, income levels vary greatly across the country, with full time workers in SIGOMA areas earning less than the average worker in England and much less than the average worker in London.

6. These types of inequalities represent the unequal distribution, and generation, of wealth across the country and we would like to see the report explore the impacts of such inequalities in greater detail and assess their likely trends in the future. Some of the trends highlighted by the report could suggest that geographic inequalities will be even more difficult to close in the next spending period and that this could have serious implications for the overall efficiency of the economy. For example:

— the report predicts that national levels of participation in the labour market will remain broadly stable over the coming decade (para 3.43), meaning that areas with lower employment rates are likely to remain lower;

— the report notes that there will be greater pressure on relative incomes as the premiums attached to skills increase and “skills biased technological change” means that the higher skilled can command higher incomes whilst the less skilled command increasingly lower incomes (para 4.48); and

— different regions will be affected in different ways by further global integration and technological progress, meaning that some regions with declining sectors will find it harder to attract skilled labour and knowledge intensive industries and may need support through the transition to the global economy (para 4.53 and 4.54).

7. As argued in our previous submission to the Select Committee, the tight round of public spending settlements and ongoing emphasis on efficiency savings predicted for CSR2007, mean that it is increasingly important for public spending to be better targeted to support the Government’s wider regeneration aims and PSA targets that seek to close the gaps between regions and local areas. At the current time we would argue that, whilst progress is being made, there are still considerably large inequalities in the local government funding system. Despite a lower tax base and the recognition of increased need, SIGOMA authorities are due to receive a relatively poor settlement for 2007-08, lower than shire districts, shire counties and unitaries, and severely damped back in key services areas like social services. A recent survey by SIGOMA shows that, on average, a SIGOMA authority faces a budget short fall of around £7.7 million. It is clear that this situation cannot reflect the underlying aspirations for improved public services set out in the Treasury report and the recent Local Government White Paper.
**Education, research and development**

8. The Treasury report shows how the UK stands to benefit from globalisation and provides a good illustration of the key trends and challenges that will shape global economic development in the future. Essentially the key argument of the report is that the UK will benefit from the increasing competition and opportunities presented by globalisation if it continues to ensure that the economy is as open as possible for trade, investment and innovation from around the world, and ensures that it has an increasingly skilled and flexible workforce.

9. Three related trends are particularly important to SIGOMA’s agenda and the issues that we are raising on behalf of our local authorities, these are:

   - greater rewards from innovation—the fact that technology drives globalization and growth, and the pace of technology is rising so innovation is increasingly important to economic success (para 4.23—4.27);
   - research and development—a number of sections in the report (eg para 4.28) emphasise the increasing importance of “cutting edge” research and development, to ensure that the UK economy stays at the forefront of technical advances to remain competitive; and
   - higher levels of demands for skills—the way that globalisation increases the demand for skills in developed economies, like the UK, and rewards high level skills with a forecast increase in the proportions of managers and professional occupations and a widening gap between these groups and less skilled work (para 4.30).

10. SIGOMA’s concerns are that these trends will have a very different impact in different areas, with an increasingly positive effect in some regions where a larger proportion of highly skilled workers reside and levels of innovation and enterprise are already higher (as suggested in para 4.54). Whereas many SIGOMA areas still have further distances to travel to meet the challenges of a growing knowledge economy, with a lower skills and educational base and lower levels of enterprise and innovation, and so need further investment to take advantage of the opportunities that are forecast.

11. As noted in our previous submission, a key challenge will be to identify which areas of the country require more public investment to enable them to meet the challenges of a knowledge economy so that they can contribute to the evolving economy. At the current time, many public spending decisions do not support the kind of thinking and approach set out in the Treasury report. For example:

   - Over 2006–07 a school child in SIGOMA areas gets on average £347 less than a pupil in Outer London and £1,465 less than a pupil in inner London.
   - The Dedicated Schools Grant means schools resources have been based on historical patterns of local spending rather than on the need in the future, and councils have no flexibility on how local resources are targeted.
   - Some SIGOMA local authorities are struggling to implement major educational programmes like Building Schools for the Future because of the problems of the capital financing system and their costs of financing large scale borrowing through the grant system.
   - Funding for science and technology in London and the Eastern regions is around £60 per head, twice the rate of other regions like the north west and north east.

12. Given these facts, SIGOMA would like to see greater consistency between individual funding decisions and the wider trends set in the Treasury report.

**Uncertainty and the need for ongoing discussions**

13. One of the underlying themes of the Treasury report, and any exercise that seeks to take a long-term view of the whole range of opportunities and challenges facing the national economy, is the difficulty in understanding the social impacts of future trends. This is particularly true where innovation and technology are such important driving forces and demographic forecasts are not guaranteed, as the Treasury report points out (para 1.9, Section 3 on demographic changes and paras 5.10—5.11). Trends also differ greatly in different parts of the country and, as our evidence suggests, can have very different impacts in different local areas or regions.

14. As such, the commitment made by the Prime Minister and Chancellor for “open discussions about future priorities”, together with further consultation, is an extremely important one. Given the differing impacts of future trends in different areas or regions of England, and the different issues likely to be raised in different areas, we would like to see these discussions being held with different representative groups like SIGOMA so that the CSR2007 is able to take on board the full diversity of issues across the country.
The likely development of Public Service Agreements and PSA Targets

15. Given the issues raised above, and SIGOMA’s concerns for the impact of current trends on different local areas and regions, we support the role of PSA targets in measuring progress and ensuring that public spending is directed to areas of greatest need and priority. SIGOMA has identified issues from the report that are of importance to our areas, issues that will continue to hold back urban areas if Government does not recognise the needs we have and is prepared to target resources to enable future development.

16. We would identify areas for spending priorities in education, employment and skills and neighbourhood renewal to ensure that our areas are prepared to meet the challenges the emerging knowledge economy will bring. PSA Targets that focus on regional disparities, neighbourhood renewal and raising the performance of the worst performing areas are the most important to SIGOMA. The current PSA and PSA targets have done well to identify where areas are underperforming but the country now faces significant new challenges identified by the Treasury report.

17. In this context, SIGOMA would encourage the Government to develop a set of high level PSAs in the Comprehensive Spending Review reflecting important issues for SIGOMA areas such as education, employment and skills and neighbourhood renewal. Rather than focusing on the national average or on the performance of specific groups in society however, these targets must focus on improving progress in the poorest areas and regions of the country so that every community is brought up to the national average and no one is seriously disadvantaged by where they live.

18. Over recent years, the Government has increasingly recognised the inequalities that exist in both the funding system and between communities. SIGOMA now asks that the Government embraces CSR07 as an opportunity to make a real difference to the most deprived communities so they may benefit from the opportunities the future presents.

Memorandum submitted by Age Concern

1. INTRODUCTION

1.1 Age Concern England (the National Council on Ageing) brings together Age Concern organisations working at a local level and 100 national bodies including charities, professional bodies, and representational groups with an interest in older people and ageing issues. Through our national information line, which receives 225,000 telephone and postal enquiries a year, and the information services offered by local Age Concern organisations we are in day to day contact with older people and their concerns.

1.2 Age Concern is pleased to submit evidence to the Treasury Select Committee’s short inquiry into the CSR. We are also making a lengthier submission to Treasury directly. This submission provides some background commentary on the progress of the review, sets out key long-term challenges for our ageing society, makes recommendations for the future of Public Service Agreement targets, and summarises our proposals for public spending in eight key areas.

1.3 We welcome the commitment in Budget 2006 to a “national debate” on future priorities for public spending. So far the level of public debate and stakeholder engagement has been variable, with open discussion on the role of the third sector and over the direction of social care, but a more closed process in other areas. We believe that public spending decisions affecting older people are issues for us all. We would welcome and support attempts to involve a wide range of people in the CSR through participative events. Age Concern would be pleased to design and implement specific actions for conducting the debate to involve people in decisions about policies for an ageing society. We will be speaking to the Treasury about the role we could play.

1.4 Age Concern England is pleased that the Treasury has identified demographic changes as one of the five key challenges to be addressed by the CSR. This was reiterated in the Treasury document published on 13 July 2006 which identifies “demographic and socio-economic change, such as the rapid increase in the old age dependency ratio as the ‘baby boom’ generation reaches retirement age” as a key long term challenge. We are also pleased that that document stated the need for the CSR process to be “comprehensive, open and demanding”. We have not commented in detail on the July document which mainly concentrates on efficiency and cost-cutting exercises already underway.

1.5 The demographic challenge is being put into practice in two main ways. First the Treasury has set up a team to review the public spending implications of an increase in the number of people over 85 with
intensive needs. This work is focused quite narrowly on social care and healthcare for people near the end of life. Secondly the Cabinet Sub Committee on Ageing has been tasked with developing cross-departmental proposals on ageing, to develop the Opportunity Age strategy launched just before the 2005 General Election.

1.6 We recommend that the demographic challenge is progressed in a third way, by “age proofing” all decisions being taken in the CSR, even if they initially appear unrelated to older people. For example the interim report of the Leitch Review has already made it clear that skills for mature workers will need to be an important part of a refreshed skills strategy.

2. **Long-term Priorities**

2.1 We are pleased that as well as making spending decisions for the years 2008–09 to 2010–11 the CSR will set “the tone and direction of our public spending for the long term”. This presents an opportunity to address key issues over a 10-year time-frame. We hope the CSR will be used as an opportunity to identify significant emerging issues, gather evidence, set the direction for policy and attempt to build broad agreement. The recent debate over pension reform shows the benefits of taking a mature, long-term approach to policy development. We have identified eight “10-year challenges” for the CSR:

- **Older people’s income**—Despite our warm support for the pensions reform proposals a large proportion of pensioners will remain reliant on means-tested benefits for many decades. Over the next decade the challenge should be to maximise take-up of benefits, and implement extended eligibility for the basic state pension and the restoration of the earnings link (with early roll-out if affordable).

- **Preventative services**—Rather than simply providing services when things go wrong the Government wants to offer joined-up, preventative support to promote independence, health and wellbeing. The challenge over the next 10 years is to re-focus services on prevention by: breaking-down silos between existing services; changing the culture of providers; and re-directing investment.

- **Long-term care**—Over the next decade the funding of long term care and the operation of care markets will rise to the top of the political agenda, as today’s chronic under-funding is acerbated by the rising number of over-85s. In the coming years initiatives such as “individual budgets” need to be broadened into a strategic approach to care markets, to ensure appropriate supply and the right advice and advocacy for care users. The Government also needs to review the funding of care, joining the debate initiated by the King’s Fund and Joseph Rowntree Foundation. A process of analysis and dialogue is needed, with the aim of establishing a new “settlement” on funding for care over the medium-term (following the model adopted for pensions reform).

- **Equality in health services**—Despite recent progress there is much to do in achieving equality in older people’s access to and experiences of services, and in reducing preventable differences in the outcomes of treatment (eg mental health services). Over the next 10 years the challenge will be to change practice and organisational culture to deliver equitable, personalised services, which respond to every patient’s different needs.

- **Fuel poverty, housing conditions and winter health**—Tackling cold-related deaths requires ongoing action to improve the thermal comfort of older people’s homes and to reduce the proportion of income needed to achieve a warm home. Two years of rising energy prices and the likelihood of high prices in the future have increased the challenge.

- **Learning and Skills**—The interim report of the Leitch Review of Skills highlighted that half the 2020 workforce is already aged over 25. To achieve the skills mix envisaged by the Leitch Review over the next decade there will need to be a sustained increase in the training of mature workers with low skills. This will demand a radical shift in policy and delivery, to reverse the existing emphasis on young adults.

- **Informed choices**—In today’s society informed choices are ever more important: there is more choice in private markets; the Government is promoting “voice and choice” in the delivery of public services; choosing healthy lifestyle options is the key to a long and healthy old age; and rights and entitlements are becoming increasingly complex. Advice services are today facing financial crisis and a cross Government strategy is needed which focuses on securing choices and entitlements for all.

- **Local services**—The ability to access local shops and services in rural communities and disadvantaged urban areas is a key factor in remaining independent, building social networks and sustaining quality of life. The Government needs to review what pattern of local services should be available in 10 years time and consider the role of the planning system and public spending in securing these.
3. PUBLIC SERVICE AGREEMENT TARGETS

3.1 One of the key tasks for the CSR will be to review the current targets set for Government departments ("Public Service Agreements"). Some of the current PSAs have had a significant impact on older people’s lives by driving reforms to public services (eg Pension Credit take up; an increasing emphasis on providing long term care in the home). Other targets have not served the needs of older people because they have had upper age limits (eg some health service PSAs) or have not included age-related “floor” targets to drive up outcomes where they are worse for older people.

3.2 We understand that for this CSR the Government is anxious to reduce the overall number of targets and focus them more on high-level outcomes. We support the slimming down of the number of targets, although it is unrealistic to assume that this will be on a dramatic scale:

- In some areas narrow service-focused targets should be replaced by wider outcome targets.
- Targets will remain a powerful tool for achieving system change in service delivery.

3.3 We have specific proposals for how existing PSAs could be amended to make them serve the needs of older people better. Where the Government is minded to retain a PSA broadly unchanged we recommend that it takes these suggestions into consideration (see annex 1).

An Age Equality PSA

3.4 Our main recommendation for the PSAs is that all targets affecting adults are adequately “age proofed” so that older people share in improvements along with the rest of society. PSA targets currently exist for race equality and gender equality. There are other PSA “floor targets” for particular groups, including people living in disadvantaged areas and in rural areas. There is currently one age equality target (on the employment of older workers).

3.5 Our proposal is that the full suite of new PSA targets should be monitored for their “age equality impacts” (ie that for all targets, improvements in outcomes for older people should be no less than improvements for the rest of the target group). The age impact of each target should be published in departmental annual reports. The whole list should be brought together as part of an annual “Opportunity Age” monitoring report.

3.6 In addition we believe a sub-set of these indicators should be included as a formal “age equality PSA”, along the lines of previous PSAs for other disadvantaged groups. DCLG is likely to scope the case for taking forward the existing gender and race PSAs as an integrated equality PSA, which could in principle include age equality. Our proposal could therefore be part of a wider equality PSA.

3.7 We have developed a “long list” of 26 indicators which could be subjected to age-based monitoring (of which a sub-set would form the age equality PSA). These are drawn from two sources (1) 2004 PSA targets (many of which are likely to change) and (2) Opportunity Age indicators, which the DWP hopes may inform some future PSAs on older people. We would also expect any new 2007 PSA targets to be included in this list.

An Age Equality PSA: “For each indicator the improvement for older people should be NO LESS THAN improvements for the rest of the relevant target group” (or a CLOSING OF THE GAP for indicators marked with an asterix)

<table>
<thead>
<tr>
<th>Domain</th>
<th>Indicator (most drawn from existing PSAs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income Contributions</td>
<td>Persistent low income Employment (all adults*; disabled adults; adults with low skills); skills*; hourly earnings*; flexible working; enterprise; voluntary and community engagement</td>
</tr>
<tr>
<td>Health</td>
<td>Mortality; health inequalities; healthy lifestyle; mental health; long-term conditions; treatment waiting times*; care at home; patient experience and involvement</td>
</tr>
<tr>
<td>Housing and Communities</td>
<td>Fuel poverty; decent homes; local transport and services; crime; neighbourhood environment; road accidents; fire-related deaths</td>
</tr>
<tr>
<td>Cross Cutting</td>
<td>Advice; consumer empowerment*; participation in culture</td>
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Other PSAs

3.8 We have eight proposals for other PSA targets, which we hope will initiate debate. Five of our proposed PSAs are outcome targets (they overlap to some extent so not all are likely to be selected):

- A reduction in pensioner poverty—ie a reduction in the proportion of people aged over State Pension Age living in relative low income and in the proportion living in material deprivation. This would replace the narrower target on take-up of Pension Credit.
— Life expectancy at 65—A target already exists for increasing life expectancy at birth. This target would track the impact of public health interventions and healthcare for people already in later life.
— Reduction in the duration of long-term illness in later life—Delaying the onset of severe ill-health in later life (“compression of morbidity”) is a priority issue because extra years spent with ill-health have serious implications for personal wellbeing and public spending. An appropriate measure would need to be developed.
— An increase in wellbeing and independence in later life—an outcome-target on wellbeing and quality of life would “lock in” the current focus on “happiness” into Government policy and service delivery.
— A Reduction in mental health problems and/or depression—mental health problems are extremely common in later life. This target would track the impact of cross Government interventions to improve quality of life and improvements in mental health services.

3.9 The other three proposed PSAs are service-focused, in key areas where current PSAs do not exist:
— Access to community health services—A new PSA is probably needed to drive the implementation of plans to reduce the role of hospital commissioning and increase the availability of NHS community services.
— Carers—A PSA on carers would ensure that policy and service delivery takes account of the needs and contributions of the millions of unpaid carers upon whom the country relies. The PSA could include elements such as (1) take-up of flexible working; (2) number of carer’s assessments; (3) number of carers receiving carers’ services; (4) reported wellbeing.
— Exclusion from transport and services—This target would measure the impact of policies for local transport, planning and regeneration to combat exclusion for older people.

4. Proposals for Policy and Public Spending

4.1 Earlier in this submission we outlined eight key long-term challenges for our ageing society, which need to be addressed over the next decade. We have developed proposals to address these challenges for the financial years 2008–09 to 2010–11. These recommendations have been developed in light of the current financial environment and the likelihood that there will be little growth in overall spending.

4.2 Income—proposals to increase benefit take-up:
— Sustain current DWP spending on face-to-face benefits advice, but with far greater join-up and budget-pooling with other agencies promoting benefit take-up and other services.
— Merge the claim process for State Pension, Pension Credit, Council Tax Benefit and Housing Benefit.
— Develop an automatic claim procedure for Pension Credit, based on PAYE tax data from HM Customs and Revenue.
— Transform Council Tax Benefit into a rebate paid automatically to eligible households, based on secure data-sharing between DWP and local authorities.

4.3 Preventative services:
— Carry forward current initiatives (eg Partnerships for Older People Pilots, LinkAge Plus) as joined-up, long-term pilots to develop the credible evidence base for the medium-term “invest to save” case for preventative services.
— Promote national roll-out of preventative approaches to services, by (1) designing “prevention” into the new common assessment framework for commissioning services, drawing together care, housing support and adaptations, benefits etc (2) building requirements into Local Area Agreements for councils to develop preventative, partnership-based services (3) increasing local authority budgets to replicate POPPs spending nationwide.

4.4 Long-term care—in advance of a new long-term “settlement”, these proposals aim to address the worst failings of the current system, involving individuals unfairly subsidising the state. They would lead to increased local authority spending.
— Local authorities should have a duty to manage care contracts (on request) to ensure that unfair top-ups are not being charged to families.
— Care home regulation should prevent clients being charged different fees for the same service, only on the basis of the source of their funding.
— The personal expenses allowance for local authority funded care home residents should increase to £40 per week.

4.5 Equality in health services—in the short term focusing on mental health:
— Mainstream mental health services should be available to older people with severe and enduring mental illnesses.
— Non-pharmacological treatment and support should be available equally to people of all ages with anxiety and depression.
— An entitlement should be introduced for all carers of people with dementia to a regular, planned break from caring.

4.6 Fuel poverty, housing conditions and winter health:
— The Winter Fuel Payment should be increased by £100 to reflect recent increases in energy bills, of over £300 per household since 2003.
— An additional £300 million per year is allocated to fuel poverty initiatives to achieve the Government’s 2010 fuel poverty target.

4.7 Learning and skills—proposals to meet 2020 skills requirements and safeguard learning in retirement as a “preventative” service:
— Training of people over 40 should be prioritised within the Skills Strategy and New Deal for Skills programmes, by designing targets and incentives to promote take-up at national and provider level.
— Introduce an entitlement to free training—from basic skills to level 3, based on personalised, modular provision—for all adults without qualifications at the level they are aiming to reach.
— Review recent cuts in community learning and increase funding for “personal and community development learning” to fully reflect cuts since 2003 in similar provision funded from FE budgets.

4.8 Informed choices—building information and advice into policy design:
— All policy decisions which extend choice in public service or consumer markets should include a “vulnerable groups” impact assessment which identifies information, support, and educational needs. The costs of delivering this additional support should be built into the implementation of new policies.
— Government strategy and earmarked spending for information and generalist advice.
— The civil legal aid budget should be ring-fenced, rather than being under constant pressure from criminal defense budgets.

4.9 Local services—in the short-term focusing on Post Offices:
— Maintain the annual £150 million rural support package up to 2011.
— By 2010 ensure that the Post Office network is able to offer new banking services to replace the customer base and revenue stream provided by Post Office Card Accounts. If the changeover threatens the viability of the network consider the case for increasing subsidy.
— Review the social regulation of Royal Mail to ensure it is delivering an adequate post office network in disadvantaged urban areas.

September 2006

APPENDIX

PROPOSED REVISIONS TO EXISTING PSAs (SHOULD THEY BE RETAINED)

Changes to target group

Skills—include all adults below SPA (not just economically active) and adults in work or wanting work over SPA
Circulatory disease and cancer—extend target to people over 75
Intensive care in own home—recipients of non-intensive care should not be included in the target group

Additional sub-targets

Health inequalities—gaps in life expectancy at 65
Healthy lifestyle—adult obesity and/or exercise
Long-term health conditions—reported wellbeing of people with long-term health conditions
Care—client satisfaction; take-up of direct payments; choice of local authority funded residential care home
Consumer empowerment—develop outcome targets
Gender equality—indicators on older people’s issues (eg incomes of single women; isolation among single men)
Workplace rights—measure impact of age discrimination law
Private sector pensions—replace target on awareness of pension entitlements with a goal to increase the proportion of people saving for a pension
Treasury Committee: Evidence

More ambitious targets

- **Decent housing** — private sector target should be higher (e.g., 75% in 2011)
- **Older workers** — make steps towards aim of a million additional older workers, by increasing the 50–69 employment rate (and/or closing the gap) by 1% per year

Changes to definitions

- **Resolution of legal problems** — amend to include all legal issues affecting older people. Scope possibility of widening into a target on advice of all kinds.
- **Rural services** — include Post Offices in list of key services
- **Employment** — amend “headline” employment rate to take account of workers over SPA and equalisation of SPA

Memorandum submitted by the SPARKS Programme

**Executive Summary**

- Cross-departmental working must be a key emphasis of CSR07. The SPARKS programme’s work on cross border penalty enforcement provides a good case study of this need.
- Behind the aspirations for “joined up Government”, the SPARKS programme has concerns that Government Departments do not currently share the priority of finding a solution to the issue of cross border penalty enforcement.
- The SPARKS programme is concerned that the issue of handling foreign registered vehicles (FRVs) is not “owned” by any one department or agency which impedes progress towards creating a cross-departmental strategy for addressing the issue.
- Local authorities need the support of central Government in order to lift the barriers that prevent them from enforcing penalty notices issued to foreign registered vehicles. From 1991 to 2006 the number of foreign registered vehicles (FRV's) in the UK has increased by over 400%. Increased inter-EU migration will only exacerbate the problems currently faced by local authorities in this area.
- The SPARKS programme believes that the Comprehensive Spending Review is an opportunity to introduce new Public Service Agreement targets (PSAs) that share the priority of creating a viable system for the enforcement of civil traffic violations across departments and ensure that the necessary resources come forward in a timely and co-ordinated manner.

1. **About SPARKS**

   1.1 The SPARKS Programme (Shared Parking and Registered Keeper information Service) is an initiative that enables traffic authorities in the UK and other EU Member States to collaborate and co-operate as they resolve the issue of cross-border enforcement of traffic violations. The initiative is the creation of London’s Enforcement Task Force, a pan-London grouping of organisations that co-ordinates traffic enforcement activities across the capital.

   1.2 The London Enforcement Task Force comprises Transport for London, London Councils (formerly the Association of London Government), London Technical Advisors Group (LoTAG), Metropolitan Police Service and City of London Police, as well as representatives from the Drivers and Vehicle Licensing Agency (DVLA) and the Vehicle and Operators Services Agency (VOSA).

   1.3 The aim of the SPARKS programme is to significantly increase the number of overseas drivers who obey UK traffic laws relating to parking, bus lanes, moving traffic, the congestion charge, and other civil traffic laws that may be introduced in future across the UK.

   1.4 A key impediment to effective penalty enforcement with respect to foreign registered vehicles is the lack of reciprocal vehicle keeper data sharing across national borders.

   1.5 Local authorities struggle to identify the keepers of non-UK registered vehicles. Partly this is because their own systems do not support accurate collation of vehicle data, but also because not all EU licensing authorities are able to release relevant data to a foreign organisation.

   1.6 Cross-border recognition of the UK’s decriminalised traffic laws, reciprocal access to vehicle owner data bases, clearly communicated penalties and robust enforcement policies that are rigorously implemented, will all cut offending rates.
2. THE ROLE OF PSA TARGETS

2.1 The SPARKS programme believes that the Comprehensive Spending Review is an opportunity to introduce new Public Service Agreement targets (PSAs) that share the priority of creating a viable system for the enforcement of civil traffic violations across departments and ensure that the necessary resources come forward in a timely and strategic manner.

2.2 Cross departmental PSA targets were included in CSR04, for example, on obesity (DfES, DH, DCMS), equalising growth rates between regions (HMT, DTI, DCLG), and improving air quality (DTI, DEFRA). The SPARKS programme believes that this precedent should be extended, in order to promote continued improvement in public service efficiency and delivery in areas that cross departmental competencies.

2.3 The SPARKS programme sees CSR07 as an opportunity to institute cross-departmental PSA targets more widely than CSR04. Cross departmental PSA targets are an invaluable tool for coordinating activity across Government departments and agencies and should be considered as key drivers for change and new initiatives, rather than simply tools for delivery.

3. THE NEED FOR CROSS-DEPARTMENTAL WORKING

3.1 Behind the aspirations for “joined up Government”, the SPARKS programme has concerns that Government Departments do not currently share the priority of finding a solution to the issue of cross border penalty enforcement.

3.2 The SPARKS programme believes that a strategic cross departmental approach to tackling this issue, involving the DfT and its agencies, the FCO, the DCA, the DCLG, and the DCMS, is urgently required, as is collaboration with European counterparts.

3.3 The SPARKS programme welcomes the work of the Department for Transport in identifying the scope for DVLA to collect Vehicle Excise Duty more efficiently through better use of their records (as noted in Section 3.18, “Releasing the Resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review”, HMT July 2006). There are other areas, critically in the realm of cross border penalty enforcement, where similar activity would be enormously beneficial.

3.4 A wide variety of complimentary but incomplete data sources exist within DVLA, VOSA, local authorities, the police, and with the equivalent EU enforcement agencies, that could enable effective enforcement of civil traffic violations for FRVs if there was a combined and focused effort on the part of the UK Government to create a system for sharing data across borders.

3.5 The SPARKS programme’s project work involving licensing agencies in the Netherlands and others indicate both a willingness and ability to cooperate on sharing vehicle registration data across national borders on the side of European counterparts.

3.6 The SPARKS programme believes that effective use of databases is essential to creating the workable system of enforcement desired by all stakeholders.

4. OWNERSHIP OF THE ISSUE

4.1 The SPARKS programme believes that a lack of ownership for the issue within the DfT and its agencies, or within other Government departments, hinders attempts to improve our ability to enforce penalty notices for registered vehicles.

4.2 By necessity any concerted action to improve the enforceability of penalty charges issued to FRVs will have to include:

— Home Office—responsible for border control.
— Department for Transport—responsible for road safety, traffic management, licensing, vehicle registration and so on.
— Department for Constitutional Affairs—effective penalty enforcement is a matter of fairness and justice.
— Foreign and Commonwealth Office—collaboration with European partners will be an integral part of any solution.
— Department of Communities and Local Government—the enforcement of decriminalised traffic offences is a local authority responsibility (in most cases).

4.3 The experience of the SPARKS programme suggests that the desire for cooperation exists, however SPARKS cannot achieve results without UK Government backing. We urge the DCA, DfT, and FCO to put their departmental energies into pursuing cross border penalty enforcement solutions.
4.4 In order to achieve results, clear responsibility must be taken for cross border penalty enforcement and the SPARKS programme believe that HM Treasury PSA targets can greatly assist in defining accountability for an issue of growing national importance.

October 2006

Memorandum submitted by Milton Keynes Council

EXECUTIVE SUMMARY

— Milton Keynes Council believes that the Comprehensive Spending Review is an opportunity to introduce new Public Service Agreement targets (PSAs) that share the priorities of growth across departments and ensure that resources come forward in a timely and co-ordinated manner.

— The Government’s Sustainable Communities Plan (2003) has planned growth for Milton Keynes up to 2031 of 71,000 additional dwellings, an increase that will take the population to 340,000 people. In doing so, it will become the biggest city in the south east outside of London.

— The innovative Milton Keynes tariff extends contributions from developers to help cover the cost of supporting infrastructure, but the tariff only funds 17% of the total public infrastructure cost. Supplementary resources are therefore necessary.

— Getting the funding to deliver the infrastructure required is of utmost importance to authorities in all affected growth areas, and Milton Keynes Council is concerned by the level of uncertainty that surrounded the crucial “Supporting Housing Growth” review for seven months, and the lack of time that local authorities had to submit a response to the five questions in the Treasury’s review.

— The Comprehensive Spending Review is the best opportunity for the Government to provide a medium term commitment to sustained and progressive investment in the growth areas. Current discretionary funding mechanisms such as the Growth Areas Fund and Community Infrastructure Funding do not afford the certainty required due to the risk of potential failure in bidding processes and the short expenditure period.

— The new PSA framework being drawn up by the Treasury needs to recognise that devolution to the local level needs to enable the localities to deliver the Government’s agenda in a manner characteristic of the local area. The balance requires clear targets for the locality but freedom in the delivery arrangements.

— Milton Keynes Council is also concerned that the council is in some instances penalised for its growth. For example, the new formula for calculating local authority funding uses historic trends to calculate forward population projections but this looks back to a period when Milton Keynes was growing steadily and does not recognise the accelerated growth that is now taking place.

1. About Milton Keynes

1.1 Milton Keynes is a city that was designed for growth. Since 1967, it has grown from 60,000 to nearly 220,000 in 2006. This represents a growth rate of 267% over the last 39 years.

1.2 The Government’s Sustainable Communities Plan (2003) has planned growth for Milton Keynes up to 2031 of 71,000 additional dwellings an increase that will take the population to 340,000 people. In doing so, it will become the biggest city in the south east outside of London, and comparable in size to Cardiff and Belfast.

1.3 One of the Council’s main concerns is that infrastructure comes on stream to support the extra houses being planned. This necessitates sustained and targeted funding.

1.4 The total cost of delivering the infrastructure needed to facilitate growth up to 2016 was calculated in 2004 as £1.67 billion and to deliver growth up to 2031 as £3.1 billion. Milton Keynes Council has worked in partnership with English Partnerships to develop an innovative tariff-based solution to the funding issue. The Milton Keynes tariff extends contributions from developers to help cover the cost of infrastructure to £18,500 per dwelling plus free land and other in-kind contributions. The tariff only funds 17% of the total public infrastructure cost. Supplementary resources are therefore necessary.

1.5 The Comprehensive Spending Review is of understandable interest to Milton Keynes Council because it:

— sets out the priority areas for funding based on the conclusions and feedback from a variety of reviews being undertaken (eg Leitch, Barker, Eddington);

— sets departmental spending plans and priorities for 2008–09, 2009–10, and 2010–11;
involves conducting a series of zero-based reviews of departments’ baseline expenditure, which will take a radical look at the way that government spends money on policies and programmes a decade on from the first CSR; and
— will create a new framework of Public Service Agreements.

1.6 Milton Keynes Council believes that the Comprehensive Spending Review presents a good opportunity to ensure that spending departments across the policy spectrum share the priorities of growth and bring forward resources in a timely and joined-up manner. The Council believes that if the Government is able to work with the growth areas, the growth areas will be able to support the delivery of the Government’s priorities.

2. Milton Keynes proposition to Government

2.1 The City can accommodate the national Sustainable Communities agenda if there is certainty around the Government’s commitment to the provision of infrastructure. Certainty will enable us to work with our communities and those of our hinterland to develop innovative and cost effective services as is characteristic of our area.

2.2 The substance of this submission to the Treasury Select Committee elaborates how this might be undertaken and help to deliver:
— A strong economy reflecting the economic constitution of the UK.
— 71,000 new homes to 2031.
— A highly accessible regional centre servicing three government regions.
— A balanced housing market.
— Higher biodiversity than the majority of existing farmland.
— A flourishing and diverse community engaged in the delivery of its future.
— An innovative and exciting urban environment.

2.3 The City is on the cusp of delivering this agenda but requires support from the Government to succeed.

3. What does Milton Keynes need from the Government?

3.1 Flourishing communities are not created by new housing alone. Increased demand for housing, especially in the areas most affected, brings with it the need to provide public services, such as schools, health centres, waste disposal, public transport, green space and policing. There is likely to be increasing water and energy demand, while transport infrastructure will be needed to help keep the larger traffic flows moving. In addition, wider policy objectives require that a proportion of overall housing growth is affordable. This places a strain not just on local infrastructure, but also on local budgets and local political and community support for, and acceptance of, plans for growth.

3.2 In order to grow at a sustainable and acceptable pace, Milton Keynes will require:
— adequate funding to allow Milton Keynes to achieve its planned growth. 71,000 more homes needed by 2031;
— resources to develop infrastructure expected of a substantial urban area, such as the extension of the East-West rail route, expanded Milton Keynes General Hospital and a new University;
— a joined up approach from Government Departments to ensure that policy and resources are targeted appropriately. All government agencies should work together to achieve the required growth and ensure infrastructure needs are met; and
— a clear timetable of how and when the funding will be made available.

4. Funding

4.1 Getting the funding to deliver the infrastructure required is of utmost importance to authorities in all affected growth areas, and Milton Keynes Council is concerned by the level of uncertainty that surrounded this review for seven months, and the lack of time that local authorities had to submit a response to the five questions in the review. The questions in the review lacked focus and seemed to be more about the total cost of delivering infrastructure rather than the principles and processes of how and, more crucially when, funding should be determined.
Certainty

4.2 Central to the development of sustainable communities is the requirement that Government departments are able and willing to financially support the delivery of necessary local and strategic infrastructure. The work we have undertaken to secure private sector contributions to support delivery needs to be matched by commitment from Government departments and other national agencies to fill the funding gap.

4.3 Government funding must therefore be available to deliver local infrastructure items such as playing fields, allotments and other community facilities. The Comprehensive Spending Review is the best opportunity for the Government to provide a medium term commitment to sustained and progressive investment in the growth areas. Current discretionary funding mechanisms such as the Growth Areas Fund and Community Infrastructure Funding do not afford the certainty required due to the risk of potential failure in bidding processes and the short expenditure period.

4.4 The additional income from the Planning Delivery Grant (PDG) is welcome but the uncertainty inherent in such “reward” regimes is not helpful. The council has received no income to date from the Local Authority Business Growth Incentive (LABGI) scheme because its strong historic business growth trends constitute a challenging baseline for future achievement. Again, funding that can support the delivery of growth is uncertain and, in the case of LABGI, has the unintended consequence of penalising past success.

Demographic Change

4.5 We emphasise further the impact of demographic change. At the date of the 2001 Census, Milton Keynes was the fastest growing borough in England and Wales. Furthermore, the local population aged 64–75 is forecast to increase by 140% against a national increase of 50% and the local population aged 75+ is forecast to increase by 166% compared to a national increase of 70% by 2031. It is therefore vital that this level of population growth and change is recognised by the Government in its distribution of funds to local authorities. Although the new formula uses forward projections, a change which we welcome, we still have concerns that the historic trend used to calculate the forward projections looks back to a period when Milton Keynes was growing steadily, and which therefore does not recognise the accelerated growth that is now taking place.

4.6 Due to its high level of growth, Milton Keynes Council is above the formula grant floor and is thus subject to a reduction in funding through scaling in order to finance the minimum grant increase awarded to authorities below the floor. This has reduced the amount of formula grant awarded to the authority to support both services and borrowing. Given the level of growth within the borough, we would emphasise the impact of the floors mechanism on authorities above the floor in terms of ability to finance the costs of infrastructure required to meet the needs of a rapidly expanding population.

Asset Management

4.7 With regards to the proposal in the Treasury’s interim report (July 2006) to dispose of assets by 2010, we propose that the receipts from the disposal of land in Milton Keynes by English Partnerships should be reinvested in the growth of Milton Keynes rather than be returned to the Treasury.

4.8 The release of surplus land must be undertaken in a manner which will generate sustainable development through reinvestment of the receipts into the provision of both local and strategic infrastructure. The release of the land should be carefully executed to ensure that the development itself optimises opportunities for high quality design, community engagement and progressive environmental standards.

4.9 This strategy will deliver longer-term resource savings by enabling the establishment of strong communities from the outset through early investment in community development and local wellbeing. Experience in Milton Keynes shows significant deterioration of the fabric of many of the earlier low cost developments. The deterioration further disadvantages communities already experiencing intense deprivation.

5. Delivery of National Priorities Through Devolution, Local Accountability and Participation

5.1 The Government is considering how the PSA framework can most effectively foster the conditions needed to ensure that individuals, empowered to act as informed champions for improvement and service quality, have a genuine role to play and can expect more responsive services in return.

5.2 Milton Keynes Community Strategy sets out growth as the central tenet of the City’s future. The Strategy is the blueprint for the delivery of this growth and is predicated on the ambition that Milton Keynes is to grow into an exemplar community. Central to this is the presupposition that all aspects of the community will be integral in decision making processes.

15 Director of Public Health’s Annual Report 2005, Milton Keynes NHS Primary Care Trust.
Increasing Accountability—the role of the local delivery vehicle in Milton Keynes

5.3 The Sustainable Communities Plan 2003 stimulated the most recent model for growth whereby the Urban Development Area (UDA) and the Milton Keynes Partnership Committee (MKPC) were established. MKPC is a sub committee of English Partnerships but populated by an independent chair, MKC Councillors and Local Strategic Partnership (LSP) representatives. The majority therefore reflects local interests.

5.4 In addition to a delegated responsibility for all of English Partnership’s development activities in Milton Keynes, the MKPC has development control powers for Greenfield areas to the east and west of the new City, is responsible to expedite the delivery of infrastructure associated with growth and is charged with producing a growth plan for the period up to 2031.

5.5 MKPC has been established for two years and has achieved a number of tangible successes. Growth is also delivered well by other partners across the city who, working via the Local Strategic Partnership, have adopted the Community Strategy as the Growth Blueprint.

5.6 A weakness of the Milton Keynes growth model is the tension between local priorities and the national agenda. The Council holds three seats on MKPC but the Partnership as a sub committee of English Partnerships is accountable directly to Government. Despite the scrutiny function vested in the LSP and the Council’s External Scrutiny Panel these bodies act only as consultees and there is no imperative for the Partnership to adhere to their views. There is a risk therefore that accountability upwards to Government overrides the local partnership’s views and creates a democratic deficit.

5.7 The Government’s new framework should recognise that devolution should support localities deliver the Government agenda but in a manner determined locally rather than driven centrally. The balance requires clear targets devolved to the locality but coupled with freedom in the delivery methodologies.

Joined up Cross Departmental Priorities

5.8 Milton Keynes Council wants to see the Comprehensive Spending Review outline:
— joined-up cross-departmental priorities; and
— more focused PSA targets that support and assist joined-up working between departments.

5.9 Milton Keynes also has concerns about the current Public Service Agreement targets that commit departments to achieving maximum growth in the regions without a corresponding commitment to delivering concomitant infrastructure resources.

5.10 Existing PSA target 2 for the ODPM (now DCLG) states: “Make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006, joint with the Department of Trade and Industry and HM Treasury, including by establishing Elected Regional Assemblies in regions which vote in a referendum to have one.”

5.11 Milton Keynes Council is concerned that current Public Service Agreement targets are not to any great extent cross-departmental and do not (in the context of delivering growth and infrastructure to growth areas) share priorities across government.

5.12 For instance, whilst PSA Target 5 sets out the balance between housing availability and demand without recognising in this target or others the responsibility to provide commensurate social infrastructure.

5.13 Milton Keynes has developed a business plan for the growth areas of the city. The business plan sets out all requisite local and strategic infrastructure arising from these expansion areas. Government is asked therefore to undertake similar planning when setting targets for growth and regeneration to ensure that all departments recognise the needs of new communities in their business planning.

5.14 Typically this might include a target for the Department for Education and Skills to build more schools and ensure adequate resources to cope with housing and population growth; and for the Department for Transport to fund additional capacity to cope with particular demands in growth areas; and a priority for increasing health services capacity in areas experiencing growth.

5.15 The Council is concerned that the community is in some instances penalised for its growth. For example, the Landfill Allowances Trading Scheme will not recognise that as the community grows the gross total waste will increase. The Council is committed to reducing the per capita level of waste but is unable to reduce the overall total when faced with a rapidly expanding population.

5.16 In terms of processes, HM Treasury needs to put in place outcome-based PSAs that set shared priorities across departments. Cross-cutting budget setting and cross-cutting PSAs need to make every pound deliver more. Such an approach would enable the localities and regions to develop innovative ways of collaborating in the delivery of key services.
Interregional Collaboration

5.17 The Milton Keynes South Midlands (MKSM) growth area spans three government regions, three regional assemblies, RDAs strategic health authorities etc. The successful growth of any particular component of the sub-region is dependent upon strategic planning across the whole area. Government should consider freedoms across these administrative boundaries to enable fruitful planning and delivery of infrastructure. PSA targets for all Government departments that support the delivery across the regional boundaries are required.

5.18 The approach would enable national and sub-regional planning of services to be sensitive to local ambitions as well as generating economies of scale across government boundaries. Funds must be allocated in proportion to, and in recognition of, the demands that will be placed on particular areas within the MKSM area, such as Milton Keynes.

5.19 Certainty of Government resources for growth across all communities in the sub region would expedite the delivery of homes by providing confidence in both the public and private sectors that capacity of services will be adequate. Potentially this would encourage local communities to embrace the prospect of growth rather than view it as an agenda imposed from Government.

6. Conclusion

6.2 In conclusion, Milton Keynes Council believes that the Comprehensive Spending Review provides the Government with an opportunity to ingrain cross-departmental working practices and provide adequate funding for national priority and growth areas and interregional collaboration unconstrained by regional administrative boundaries.

6.3 The Sustainable Communities and Growth agendas have to be prioritised in terms of funding and in terms of outputs across departments and not be left the responsibility of a single department.

October 2006

Memorandum submitted by SBAC

1.1 SBAC is the UK’s national trade association representing companies supplying civil air transport, aerospace defence, security and space markets. SBAC encompasses the British Airports Group and UKspace. Together with its regional partners, SBAC represents over 2,600 companies, assisting them in developing new business globally, facilitating innovation and competitiveness and providing regulatory services in technical standards and accreditation.

1.2 SBAC welcomes the Treasury Committee’s inquiry into the emerging issues in the Comprehensive Spending Review. Government spending and investment in research and technology, skills and security and resilience are key priorities for our industry.

1.3 Aerospace is a UK success story and remains the largest aerospace industry outside the USA. It directly employs 124,000 people, has a turnover of £22.7 billion and has seen record levels of new orders, £30 billion in 2005. UK aerospace manufacturing is globally competitive and exports 67% of its total sales. UK companies also have a significant presence overseas, employing 43,000 people and generating sales of £6.5 billion.

1.4 Aerospace manufacturing provides high value and highly skilled jobs. The latest data shows that 34% of all employees in the sector hold a university degree or equivalent and is forecast to increase to 40% by 2010. Average salaries in the sector are £33,645, 43% higher than the UK average and 31% above the manufacturing average. The industry is committed to improved training and skills development and employs 2,719 apprentices.

ISSUES ARISING FROM THE TREASURY DOCUMENT PUBLISHED ON 13 JULY 2006

2.1 The Treasury paper focuses primarily on cost efficiency objectives and progress on measures to implement the Gershon recommendations. SBAC has a particular interest in the Defence Industrial Strategy and the McKane review that recommended the merger of the Defence Procurement Agency and the Defence Logistics Organisation.

2.2 SBAC has been closely involved with the development of the Defence Industrial Strategy. Industry welcomed its publication as a tremendously important step because it:
   — recognised the need for a successful and profitable UK defence sector;
   — identified the important capabilities we need to retain appropriate sovereignty in the UK;
   — underlined the importance of achieving value for money in defence using a variety of tools; and
   — committed MOD to provide information necessary to make appropriate long-term investment decisions.
2.3 The implementation of Defence Industrial Strategy (DIS) is the most significant public procurement issue currently facing the sector. Industry had been urging the Ministry of Defence (MOD) to develop a strategy since the publication of the Defence Industrial Policy in 2002. Industry was encouraged by the energy and drive that was applied to developing and publishing the DIS. It was particularly pleased by the significant engagement between MOD and industry which helped to inform the strategy and prepare industry for the new approach.

2.4 Industry gave a generally positive response to the strategy on its publication and welcomed the recognition of the idea of “appropriate sovereignty” and the need to maintain industrial support in the UK for the Armed Forces. It was also heartened by the MOD’s recognition of the need for an efficient and profitable defence industry, a more open and transparent approach to future capability requirements, MOD’s willingness to adopt a variety of procurement models offering better value for money (including partnering and competition) and the emphasis placed on Through Life Capability Management (TLCM). But these positive objectives will only provide real benefits if MOD and industry are successful in implementing DIS in 2006–07.

2.5 Industry is keen to see DIS implemented. The National Defence Industries Council, its various sub-groups and a range of other DIS specific groups are working closely with MOD to press for effective implementation. The publication of the review into Enabling Acquisition Change indicates MOD’s determination to make the necessary changes to deliver TLCM and improve the coherence of its relationship with industry.

2.6 For industry, the immediate focus is to develop partnering arrangements in key sectors. Progress in some sectors is good, the announcement of the partnering agreement with AgustaWestland being an obvious example. While in other sectors tough negotiations continue. Work on partnering agreements is proving a real life test for the changes in culture and behaviours in MOD and industry heralded by the launch of the Defence Values for Acquisition which underpin the DIS. It will also need to demonstrate that DIS deals with the whole supply chain, not just the MOD/Prime contractor relationship. SBAC are anxious to work with MOD on models for successful partnering and to explore how existing partnering arrangements in the commercial sector work and foster innovation.

2.7 The next six to 12 months are crucial for DIS and the future of the UK defence industry. As the various strands of the MOD change programme are pulled together industry has been looking at how to improve its engagement to provide even more constructive feedback. The membership of the Defence Industries Council has been reviewed and new members have joined. If MOD and industry are jointly able to deliver against these goals DIS will be regarded as a success.

2.8 The key issues for the forthcoming six months will be:

2.8.1 the development of effective models for partnering and Through Life Capability Management;

2.8.2 the involvement of the supply chain in the strategy and encouragement of innovation;

2.8.3 the creation of internationally competitive conditions for investment in the defence market; and

2.8.4 the investment of positive relationships with other nations that help achieve the goals of the DIS.

THE KNOWLEDGE ECONOMY, INVESTMENT IN RESEARCH, DEVELOPMENT & TECHNOLOGY

3.1 Research, development and new technology are incredibly important for long-term competitiveness in the aerospace industry. Whilst the sector is one of the most R&D intensive in the UK economy and invested £2.7 billion in 2005, up 31% on a year earlier, downward pressure on the R&T component of this figure suggests that the UK will struggle to maintain its advantage over time unless the trend is reversed.

3.2 SBAC has recently commissioned a programme of research assessing the economic importance of the aerospace industry and identifying the public policy issues critical to its future well-being. This work has been led by Sir Donald Mackay and been supported by Oxford Economic Forecasting (OEF). The results emphasise that the UK aerospace industry is globally competitive, but faces challenges from both traditional and emerging aerospace economies. It concludes that to remain competitive and a successful base for high value manufacturing, it is essential to increase R&D investment.

3.3 The importance of raising levels of R&D investment is recognised by Government and it has a specific objective of increasing R&D to 2.5% of GDP by 2014. The research work undertaken by OEF has examined the broader economic benefits associated with R&D investment, the mechanisms that facilitate them and the sectors most likely to deliver them. This work demonstrates that the benefits to the economy from increased R&D investment are large. OEF estimates that the social return on R&D investment in the manufacturing sector as a whole is around 50%, however, the economy-wide social return from R&D by the aerospace sector as a whole is considerably higher at around 70%.
3.4 The OEF research provides strong empirical evidence that there is a very large difference between the private and social returns to investment in UK aerospace R&D. This imbalance, alongside the lower profitability of UK aerospace companies in comparison to their international competitors, suggests that total investment in aerospace R&D in the UK is lower than is economically desirable.

3.5 R&D intensity in the aerospace sector in the UK is less than half of that in Germany or France, and lower than in the US. This suggests there is scope for a significant increase in the level of R&D investment to the benefit of the sector and the wider economy. Sir Donald has concluded that without specific action from Government to encourage higher levels of investment there will be sub-optimal R&D expenditure for the industry and the UK as a whole. This could put at risk the global position of the UK aerospace industry and undermine efforts to meet the Government’s own 2.5% target.

3.6 Whilst the Government has put in place a number of support mechanisms to encourage research, SBAC believes there should be an explicitly industrial component to the allocation of Government R&D spending to reflect the social returns made by different sectors.

MORE EFFICIENT TARGETING OF R&D EXPENDITURE: NATIONAL AEROSPACE TECHNOLOGY STRATEGY

4.1 The DTI Technology Programme is the mainstay of funding for the National Aerospace Technology Strategy (NATS) and essential for the future competitiveness of our industry. SBAC recognises the initial steps made to help co-ordinate funding for the NATS by the DTI, RDAs and devolved administrations. After some excellent progress it now appears that the prospects for the sector are being undermined by a lack of appropriate themes within the twice yearly project calls.

4.2 The NATS is a strategic approach to the research and technology demonstration needs of the aerospace sector. The current piecemeal approach to project calls, despite some notable successes, is beginning to fragment the coherence of the strategy and undermine its potential value.

4.3 The Aerospace Technology Steering Group (ATSG) has made a number of submissions to the Technology Strategy Board (TSB) on the themes that would best support the NATS, these appear to have been ignored. The TSB does not have a remit to consider the impact of its decisions on industrial sectors where government and industry have developed strategies to develop relevant technologies. For that reason the ATSG and industry generally, has not been allowed access to the TSB to explain the National Aerospace Strategy or support its submissions.

4.4 There is growing frustration across industry that the Government’s policy to encourage high value, high technology manufacturing sectors, like aerospace, is not being reflected in the approach being adopted by the TSB. There appears to be an inconsistency in the Government’s approach which industry finds it hard to understand.

4.5 The Office for Science and Innovation is currently considering proposals to move to an “arms length” TSB, this increases our concern, particularly when there appears to be no plans for further public consultation on the role and remit of the new body. It is essential that the new body recognises the NATS as an essential component of the Technology Programme and reflects this in the themes chosen for project calls and in the continuity of funding for key programmes. More effectively targeting R&D investment in response to a sector strategy will achieve better value for money and investment in one of the UK’s only globally competitive and successful manufacturing industries.

BETTER COORDINATION AND INVESTMENT IN SECURITY AND RESILIENCE

5.1 The nation faces a range of threats at home including crime and international terrorism, serious industrial accidents and natural threats such as severe weather and flooding. The nature of the threat is fast evolving and there exists a range of technologies and security solutions on offer which can address the problems faced by government and key parts of the private sector. As an area that has evolved through local need rather than by design both procurement processes and research & technology investment is fragmented and piecemeal. The sheer number of organisations, public and private, involved in security procurement is inhibiting investment in the development of new technology necessary to benefit security.

5.2 There remain two fundamental issues that act as barriers to industry investment with respect to the UK resilience capability market:

— A lack of visibility of either the whole market or its drivers means that customers do not accurately understand the capability of suppliers and suppliers do not understand the totality of the requirement. There needs to be a better dialogue between supply and demand.

— A lack of cross-sector interaction with respect to the overall requirement and the strategy for meeting it results in high costs of sales.

5.3 In addition, progress in security and resilience is running up against the limits of industry’s appetite to invest in capability solutions. Primarily due to a result of fragmentation in the UK security and resilience market, many UK companies prefer to invest in overseas markets where the prospects are clearer, such as the US or Middle East.
5.4 The array of capabilities that can be brought to bear on security and resilience and the large number of providers can be daunting for procurement bodies. UK industry recognises this and is examining potential solutions for better engagement with purchasers. Informal discussions between government and industry are well advanced.

5.5 Greater coordination in both procurement and research and technology funding could yield some economies of scale that delivers better technology and greater value for money. Industry is currently coordinating more closely to address some of the current areas of difficulty. This communication would be further enhanced with a more formal interaction with government and SBAC is working towards proposals of this nature.

October 2006

Memorandum submitted by Kent County Council

1. BACKGROUND AND SUMMARY

1.1 In responding to the Treasury Committee inquiry, Kent County Council wishes to draw upon its full submission of evidence made to the Treasury in May. This evidence is currently being extended to include the major funding issues of all public services within the county and will be launched at a Kent Funding Summit in Westminster on 24 October 2006.

1.2 Selected evidence has been included below under the three areas specified for the Treasury Committee’s inquiry. However, it is first important to understand the environment within which public services in Kent operate and to recognise the breadth of our wider response (available on request) and our close working with the Treasury in developing this data.

1.3 Overall, Kent is a diverse county; a combination of geography, demography, social deprivation and growth combine to create highly distinctive service pressures. Other areas may share similar factors, but few suffer the combination which creates such a unique impact on Kent’s resources.

1.4 Through the Government’s Comprehensive Spending Review 2007, Kent is seeking recognition of its atypical funding needs to ensure fair funding of public services for our residents and businesses. As part of a constructive campaign we are recommending to the Treasury a tailored package of bold, constructive and practical measures. These will begin to address Kent’s specific funding shortfall and offer wider solutions to the funding of public services at a time of national financial stringency.

1.5 Our belief is that fair funding for Kent can only be secured through a transparent funding system which:

   — Accepts the “gateway” geography of Kent and its proximity to Europe and London, and the wide distribution of the county’s population.
   — Recognises Kent’s atypical demographic change and rising intensity of specific service demands.
   — Acknowledges significant areas of deprivation in a diverse county, needs which are currently averaged out through funding equalisation; this means that Kent is unable to take advantage of Government funding streams to tackle poverty.
   — Recognises the specific circumstances of Government “growth areas” in Kent in terms of both grant calculation and tax take.
   — Enables long-term investment unhindered by “floor funding” arrangements.
   — Provides greater autonomy in local decision-making, freedom from national performance regimes and the retention of increasing levels of funding raised within the county.

1.6 Kent County Council calculates that in 10 years there will be a cumulative funding shortfall of £1,206 million between what Kent receives as a grant from Government and what it requires to provide the essential services it delivers.

1.7 In this submission, Kent County Council focuses on issues relating to the three areas of the Select Committee Inquiry, and makes specific recommendations on Growth and Demography; Capital Investment and Financing; and PSAs, including the need for investment into preventative services.

2. ISSUES ARISING FROM THE TREASURY DOCUMENT PUBLISHED ON 13 JULY 2006

Efficiencies in Kent—Context

2.1 Through our high performance in recent years and a series of successful efficiency drives KCC has shown that, given the opportunity, we are capable of using any additional resources efficiently and achieving the best possible value for the people of Kent. Kent, in common with all other Councils, needs to drive out inefficiencies to deliver central government requirements but more importantly there is an ongoing requirement to deliver an economic, efficient and effective service to our residents.
2.2 Staff are the most important asset in any organisation and the County Council often finds itself nurturing the next generation of service heads. Staff at all levels devise and deliver efficiencies within the other constraints that they face. However there are a number of socio, economic and geographic factors unique to Kent, which make the delivery of efficiencies more difficult.

2.3 Our geographic proximity to London has a very strong effect. The demand pull factor of London affects both the price for labour and other services that public sector organisations require. This drives up the unit cost of such services we have to respond to. These factors do not solely affect Kent but also other authorities that border London.

2.4 Nevertheless, these factors are then further exacerbated when there are general effects on prices either as one off events, such as the working time directive and the minimum wage, or ongoing factors such as the recent increases in fuel prices. The need to absorb these cost inflation factors make the challenge of delivering efficiencies even more difficult.

2.5 Indeed, a key measure of our efficiency is that we have performed at an Excellent or 4 Star standard over a number of years, as measured by the Comprehensive Performance Assessment. At the same time we have kept council tax increases at a level below the average of other authorities both in the South East and nationally. In our response to CSR07, we ask the Government to consider these theme-specific issues and proposals when calculating the grant allocation for Kent.

Freedom and flexibilities

2.6 As part of the response to the Gershon report and the need to deliver efficiency gains, a number of mechanisms and processes have been developed (such as the Annual Efficiency Statements—AES) to ensure delivery of these gains. We acknowledge that there is a need to ensure that quality of services is not affected by any changes and that any efficiencies are not just service cuts. However it is clear that there is a cost in terms of effort associated with the collation of efficiencies both within any local authority and centrally.

2.7 If, as an outcome of the Comprehensive Spending Review process, there are reductions in budgets, KCC should be given the freedoms and flexibilities to deliver against the budget and measure performance at a high level, rather than having detailed capturing and monitoring process such as the current AES process.

2.8 Another area where we would welcome some freedom would be around the array of Performance Indicators that we are required to prepare. The transaction and overhead costs in providing information to the “industry” of regulation and performance is of great concern. We currently have over 1,000 individual indicators, many of which are duplicated in overlapping performance frameworks, coming from a range of government spending departments and increasingly from a range of non government organisations.

2.9 Proposal—We have separately made proposals to Government about reducing the number of Performance Indicators, and look forward to positive action to help curb the current trend of placing increased Performance Indicator requirements on public services, and to ensure some stability and sensible judgements in the range of indicators being used.

3. Issues relating to the conduct of CSR07, including the national debate foreshadowed in the 2006 budget

3.1 Linking both to the conduct of CSR07 and to the National Debate, we wish to highlight 3 major issues for Kent. These are the effect of growth and demography within the county and the issue of capital investment and financing. Critically, the implications of the latter are already forcing KCC to consider whether it can afford to take up Government borrowing approvals such as those for transport and schools.

Growth in Kent

3.2 Kent has two of the Government’s four housing “Growth Areas”—Thames Gateway and Ashford—and housing stock is expected to increase by 81,500 new dwellings (14.4%) in 15 years.

3.3 Government funding formulae are still based on out-of-date ONS data that disadvantages Kent due to its high growth rates. KCC accepts that, for many services, the need for services is driven by the level of population rather than the existence of housing, but linking the funding to housing growth ensures that the funding is not lagged by the delay in collecting demographic estimates.

3.4 Proposal—We propose that actual household numbers should be used as part of the basis of calculating projected population data. This data should then be used in funding formulae.

3.5 When Local Authority Business Growth Initiative (LABGI) is applied to growth areas, the mechanics of the current system are flawed. For example, in Dartford the growth associated with the Bluewater shopping complex, one of the largest retail units in Europe, has generated an additional £28 million Business Rates per annum. The principles of LABGI require the same level of growth to be achieved in future periods, which is clearly very difficult to achieve, resulting in Dartford missing LABGI funds.

3.6 Proposal—An alternative system to LABGI should be adopted for the growth areas so that the additional tax take can be recycled over the short-term.
3.7 In addition, the “What Price Growth?” report identified infrastructure needs of £9.6 billion in capital spending in Kent over the next 20 years, ensuring the creation of communities, not simply new housing. Whilst welcoming increased schools funding (eg BSF), and with Kent County Council’s own capital programme covering a significant portion of this figure, mechanisms must be found to fill this gap enabling up-front funding, perhaps with subsequent adjustments made to reflect true housing numbers.

Demography in Kent—Adult Services

3.8 Over the next 10 years (to 2016) the population in Kent will grow at a considerably greater rate than the rest of England, with an additional 96,000 people, a 7.2% increase. The numbers of older people (ie 65+ year olds) is expected to rise by a third, with the numbers of very elderly (85+) rising by 10%. One-person households are expected to increase by 32% over the next 15 years.

3.9 With the number of people aged 65+ in Kent forecast to rise by 63,100, this would result in an additional 8,580 or so clients for Adult Services. If we carried on providing services at the same rate and average cost as at present, this would equate to an additional 3,700 clients at an additional net cost of £16.3 million by 2010.

3.10 Kent also has a unique set of issues resulting from the combination of its boundary with outer London and its deprived coastal peninsula which has developed a large private market of residential care homes because property and wages are cheap.

3.11 There is a major inflationary pressure on the cost of residential and nursing home beds due to placements from London Boroughs and a growing number of self-funders from other regions. In Kent there are 11,367 registered beds for personal care for older people. KCC service users occupy less than a third of these beds (just over 3,000). The remainder are placements from other local authorities, particularly London Boroughs, and self-funders who pay a greater fee than is affordable to Kent. We have demonstrated that we are in the top third of the most deprived authorities and yet in 2005–06 our funding per relevant head of population for an older person was £630 compared, for example, to Islington at £1,634. This creates a particular pressure in the market for those authorities in London that are funded at a significantly higher level.

3.12 We undertook an audit of our admissions to residential and nursing care in Autumn 2005 which showed that 17% were people who had self-funded their care, had then run out of money leaving KCC to pick up the bill. There are no national statistics on this, but this is obviously going to be a much more significant problem for authorities with high numbers of private residential and nursing care homes.

3.13 Proposal—The funding formula should include a factor for growing populations, recognising the time-lag between census information and actual population growth.

3.14 Proposal—The funding made available to local authorities should adequately reflect the costs of the market place in which they are placing clients. This is particularly a concern in connection with the “London” effect of market distortion.

3.15 Further, we estimate that it will cost a further £20 million in 2010 to support people with learning disabilities because costs have been rising by £5 million a year. Increased numbers alone would account for just a quarter of this, but the bulk of the cost increase is because of very significant increases in the level and complexity of need that individuals have.

3.16 For people with mental health problems, if current trends are extrapolated forward to 2010, this would suggest that the number of clients would rise by over 800, at an additional cost of £4.3m. For people with a physical disability, it is estimated that there will be an additional 580 clients in 2010 at an additional cost of £2.1 million.

3.17 The resource distribution formula fails to reflect disability sufficiently, and makes no assumptions about the proportion of older people needing support. As people with disabilities are now living into old age, this is becoming more significant. Given the large number of private residential and nursing homes in Kent, we have a disproportionate number of people with disabilities and this is not reflected in the formula.

3.18 Proposal—Government should take account of the level of disability within the population, and reflect the significant increase in demand for support for people with learning disabilities, physical disabilities and mental health problems, in funding.

Note—If we were simply to carry on providing our current level of service overall, we would anticipate that Kent Adult Social Services would need an additional £42m in 2010 at current prices just to stand still.

Capital Investment and Financing

3.19 Early in 2005–06, our budget modelling showed clearly that we would be a floor authority for 2006–07 onwards. As a floor authority we realised that any additional capital directions from Government departments would not result in additional funding through the revenue grant mechanism, unless capital funding continued to be treated outside the scope of the floor, as had happened in previous years.
3.20 Over the next three years we currently estimate that approximately 65% of our capital investments will be largely determined by national directions (supported borrowing, grants—ODPM, DfES, DfT—and PFI credits). However, within this we continue to do all we can to ensure that the needs and priorities for local people are achieved.

3.21 Although house building plans for Kent are not confined to the identified “growth areas”, they do imply an uneven distribution of the additional burden on public services across the county. Available school places will be in the wrong location, care home places will be inadequate in both numbers and location, and the road network will experience particular pinch points. This creates affordability gaps in the future as we become more and more tied into long term contracts.

3.22 Wherever possible, capital funding should be switched from “supported borrowing” to capital grant. This is the simplest way to ensure cash flows to authorities to support capital spending for specific schemes rather than providing it in the form of theoretical revenue support that flows into the revenue formula grant system and which is distributed amongst all authorities, often unevenly because of the issue of the floor mechanism putting an effective cap on the grant increase for an individual floor funded authority.

3.23 Proposal—“Supported borrowing” should be taken back outside the floor mechanism and returned to its previous basis of being an addition to the floor guarantee to ensure that supported borrowing is ultimately truly supported in the form of additional revenue grant to support the costs of implied additional borrowing.

3.24 Proposal—Wherever possible capital funding should be switched from “supported borrowing” to capital grant.

4. THE ROLE OF PUBLIC SERVICE AGREEMENTS AND PSA TARGETS IN THE COMPREHENSIVE SPENDING REVIEW

4.1 KCC has strongly supported the PSA concept and would wish to see this extended both between the Treasury and Government Departments, and between Government Departments and Local Councils.

4.2 Where national outcomes are required, and agreed, we believe:

— Local Government must have the freedom and flexibility to deliver according to local need and demand.

— Performance Reward must be used to re-enforce partnership working and innovation locally.

— Freedoms and Flexibilities must enable the re-investment of savings locally, safeguarding valuable preventative work which may otherwise be threatened by the need for short-term budget savings.

4.3 In 2001, KCC was one of the first six pilot councils to sign a three year PSA with central government. Kent’s PSA was built around a theme of “supporting independence” and became widely recognised as a model of best practice, depending on a high degree of joint working with partners throughout Kent and on a series of transformations in the way we delivered services. We were able to report major success, with 10 of the 12 targets fully achieved and a Performance Reward Grant from Government of more than £21 million. Successes included the doubling of adoptions in Kent and almost halving deaths and injuries from accidental fires.

4.4 The Kent PSA demonstrated the important of preventative investment, with real medium/long term benefits to Kent public services. In binding national and local partners together in pursuit of shared objectives, and with re-investment of Performance Reward and savings, the PSA offers a proven approach to ensuring valuable, longer term investment in preventative budgets (ie Health) which short term funding pressures may otherwise do not allow. In clearly defining local priorities, the “Vision for Kent” and KCC’s “Towards 2010” strategy (both available on request) provide real objectives for such national/local and bilateral arrangements in the county.

4.5 On re-investment of savings into preventative services, we would also wish to re-iterate the proposals on the reduction of Welfare Benefits made through both the Kent Local Area Agreement (LAA) and our unsuccessful City Strategy bid.

4.6 Savings made through moving benefit claimants off benefits and into employment should be retained locally and reinvested in further preventative or implementation work to remove greater numbers off benefits and into work in order to reach local and government objectives.

4.7 There are significant obstacles to attaining full co-operation between public service agencies to achieve this. Even where agencies agree priority outcomes there are problems because of perverse incentives. For example: In order to secure an outcome, Agency A invests heavily in a service which results in Agency B meeting B’s target and saving B’s cash. Understandably, Agency A is reluctant to divert resources into services from which it reaps no benefit.
4.8 Proposal—When cross-sector savings are achieved, such savings should be retained within the Kent LAA and re-invested accordingly; when the actions and investment of a public service partner delivers a saving to a non-LAA partner, incentives shall be devised such that a portion of the saving can be retained by the partner which made the original investment. This builds on the principle accepted by Government in 2001 (during the Kent PSA1 negotiations and still being pursued) that if it could be demonstrated there were savings to the DWP budget brought about through the actions of the PSA, then Government would negotiate the potential re-investment of those savings within Kent.

October 2006

Memorandum submitted by Greater London Authority (GLA)

INTRODUCTION

1. The House of Commons’ Treasury Committee has decided to undertake a short inquiry into the 2007 Comprehensive Spending Review (CSR). The Committee has asked for written evidence as part of this inquiry on:
   2. Issues relating to the conduct of the Comprehensive Spending Review, including the National Debate foreshadowed in the 2006 Budget.
   3. The role of Public Service Agreements (PSAs) and PSA targets in the Comprehensive Spending Review.

2. This paper sets out the case for modernising the Government’s framework of rules governing its fiscal policy. In particular, it considers the case for reforming the sustainable investment rule. This is relevant to the first and second of the themes identified by the Committee above. The evidence in this note on public borrowing, debt levels and debt interest payments all point clearly to the government’s current fiscal rules having improved the management of the public finances. We strongly support the principles underlying the Chancellor’s fiscal framework. Thus our proposals involve a modernisation of the existing system of fiscal rules rather than a radical change. The Government’s fiscal rules distinguish between current and capital spending, which we view as a very important aspect of these rules. Current spending generally only benefits today’s taxpayers and thus its costs should be met via taxes and not be passed on to future taxpayers via borrowing. In contrast, capital spending generates benefits for future generations and borrowing to finance it spreads the costs of such investment more fairly across the generations. We also believe that the Government should consider amending its fiscal framework to distinguish between public capital spending that supports economic growth and generates revenue flow backs, and which should ultimately be self financing, and capital spending that does not have these impacts.

3. Our proposals focus on the sustainable investment rule because we believe rigid adherence to its current precise formulation could prevent or delay the Government from investing in capital projects needed to address long term policy challenges. As the Committee’s request for evidence noted, the 2006 Budget announced plans for a national debate on the priorities for public spending and public services to inform the CSR. These priorities will clearly be influenced by the need to respond to the five long term challenges also identified in Budget 2006:
   — demographic and socio-economic change;
   — the intensification of cross-border economic competition;
   — the acceleration in the pace of innovation and technological diffusion;
   — continued global uncertainty and poverty; and
   — increasing pressures on our natural resources and global climate.

4. As Budget 2006 states, “These long-term challenges have fundamental and far-reaching implications for public services that require . . . sustained investment in key areas.” The importance of continued public investment also emerges from the July 2006 Treasury document. It again refers to the five long term challenges noted above and recognises that, “Future infrastructure investment will need to adjust to support the needs of the UK economy in a more globally competitive environment and reflect these demographic changes”. Thus the Government’s continued ability to invest is key requirement of the CSR.

EXECUTIVE SUMMARY/KEY POINTS

— The Government has established a framework of rules governing fiscal policy, which has significantly improved the management of the public finances.
Thus we strongly support the current fiscal framework and our reform proposals for the sustainable investment rule are a modernisation of this existing framework, which we believe are necessary if the Government is to meet the long term challenges it has identified.

The Government’s fiscal rules distinguish between current and capital spending. Current spending generally only benefits today’s taxpayers and thus its costs should be met via taxes and not be passed on to future taxpayers via borrowing. In contrast, capital spending generates benefits for future generations and borrowing to finance it spreads the costs of such investment more fairly across the generations.

We believe that the Government should also consider distinguishing between public investments that support economic growth and generate revenues and which are (if worthwhile) thus ultimately self-financing and those whose benefits are non-financial and thus not self-financing.

Such an approach would require an assessment of whether investments really were revenue generating and thus eligible to be temporarily outside the scope of the sustainable investment rule. The establishment of an infrastructure fund governed by an Investment Board might be one way of achieving this.

Maintaining the sustainable investment rule’s 40% ceiling on the ratio of public sector net debt to GDP could prevent or delay the Government from investing in worthwhile major infrastructure projects, that would otherwise help stimulate economic growth and thus be of benefit to the UK.

Commonly expressed fears about the risks of higher public debt levels are not a strong argument against raising the 40% ceiling as they are pertinent only for very high ratios of debt to GDP.

An increase in the ceiling to somewhere between 45 and 50% of GDP would be reasonable. An increase of this magnitude would be a sensible pragmatic modernisation of the sustainable investment rule to allow the Government to invest in worthwhile major infrastructure projects in support of economic growth, and take advantage of the current historically low interest rates available on long dated government bonds. It would not be, and should not be seen as, an abandonment of fiscal discipline on the part of the Government.

The Government’s Fiscal Rules

5. The Government has established two rules to govern its fiscal policy:

- the golden rule: over the economic cycle, the Government will borrow only to invest and not to fund current spending; and

- the sustainable investment rule: over the economic cycle, public debt as a proportion of GDP will be held at a stable and prudent level.

Golden Rule

6. The cost of government borrowing today is met by both current and future taxpayers. In general terms current spending now only benefits today’s taxpayers. The golden rule is designed to ensure that future taxpayers only repay debt that has financed capital spending which can be expected to have future long run benefits. Thus future taxpayers benefit from public capital spending, and borrowing to fund such investment allows the costs and benefits of public spending to be more fairly matched. In contrast the costs of current spending benefiting only today’s taxpayers should be met via taxes and not be passed on to future taxpayers via borrowing.

7. Borrowing only to invest over the whole of an economic cycle allows the “automatic stabilisers” to operate. When economic activity is weak tax revenues are reduced and spending on welfare benefits are increased. This increases government borrowing and boosts total spending in the economy helping to boost economic activity. The reverse is true in a boom. Tax receipts are higher and spending on welfare benefits is lower. This will help reduce inflationary pressures in the economy. In both cases allowing the automatic stabilisers to operate means that fiscal policy assists monetary policy in stabilising inflation and economic growth.

8. If the government could only borrow to invest each and every year then it would have to respond to an increased current budget deficit arising from a cyclical downturn by increasing taxes or cutting spending. This would only exacerbate such a downturn. Equally responding to a current budget surplus resulting from a cyclical boom by cutting taxes or increasing spending would only add to inflationary pressures in the economy. Such a policy setting would place great strain on monetary policy’s ability to stabilise the economy and generate large swings in interest rates as the Bank of England sort to counteract the destabilising effects of fiscal policy. Large swings in interest rates would increase the likelihood of boom and bust in the housing market which would in itself generate general macroeconomic instability. Thus the formulation of the golden rule as operating over an economic cycle has much to be said for it.
The Sustainable Investment Rule

9. The sustainable investment rule requires that net public debt be kept “at a stable and prudent level”. The Chancellor currently defines this as at or below 40% of GDP. The Treasury has clarified that in order to meet this rule, “at the end of every fiscal year of the current economic cycle, public sector net debt must be below 40% of GDP”.16 As discussed above there are good reasons for allowing the state to borrow to invest. The state is far from alone in this regard. Companies borrow from banks and issue corporate debt in order to finance their investments and most families borrow in the form of mortgages in order to purchase a particular type of capital asset—residential property. If governments borrow then it will build up a stock of public debt. This raises the issue of how high should this stock of public debt be allowed to go? An increase in the debt to GDP ratio requires either increased taxes on future taxpayers, or reductions in public spending on items other than debt repayments, in order to fund the consequent increased debt interest repayments17. A limit on the debt to GDP ratio thus prevents today’s government from imposing an excessive debt repayment burden on future taxpayers.

10. This can be justified on the grounds of fairness. Future taxpayers after all have no votes today and so no say in what today’s government may decide to invest in. Any calculation of the benefits of public investment is inevitably a matter of judgement especially as many of these benefits are social rather than directly financial and tomorrow’s taxpayers may see fewer benefits in a particular project than today’s taxpayers do. Alternatively, a cap on the debt to GDP ratio can be justified on macroeconomic grounds if a high debt to GDP ratio has adverse economic consequences. For example, it has been argued that high public debt levels lead to high interest rates, which in turn crowds out productive private sector investment. The potential adverse economic effects of high levels of public debt are discussed in more detail below.

FISCAL RULES IN THEORY

11. The incentives that government face suggest that a system of fiscal rules might lead to better management of the public finances compared to purely discretionary fiscal policy. Governments fund public spending through a combination of taxes and, or borrowing. In the short run, borrowing has the politically attractive feature that it allows additional spending without the voters having to incur the pain of higher taxation. Thus governments focusing on the immediacy of popularity with the electorate may be tempted to borrow and spend now and ignore the longer run consequences of excessive borrowing. Over the longer term, this borrowing must be repaid and the interest on it must be serviced. This diverts resources that could otherwise be spent on future public services or returned to the pockets of taxpayers via tax reductions. As argued above, this may be fine if borrowing is funding worthwhile investment from which future taxpayers can be expected to benefit—hence the golden rule—but not if a government is trying to “buy” electoral success with current spending financed by borrowing and leaving their successors to deal with the resulting debt burden.

12. If governments wish to demonstrate that they are committed not to pursue such a short run expedient fiscal policy then setting out a system of fiscal rules that it promises to stick by can demonstrate this to voters, the media and the financial markets. Simply stating that it is committed to fiscal responsibility but retaining a purely discretionary policy carries the risk that governments will reneg on this commitment when short run political pressures come to bear.

13. A set of fiscal rules also aids transparency and so democratic accountability by making it easier for the electorate to judge the quality of a government’s fiscal management. Gauging a government’s management of fiscal policy can be difficult. Overall fiscal outcomes are shaped not just by a government’s actions but also by factors over which any government has at best only limited influence, including the cyclical position of the economy, and shocks to the world economy. Thus it can be difficult to judge whether a government has managed the public finances well or simply been the victim or lucky recipient of events. A set of fiscal rules can help by focussing the debate on the government’s performance against these rules.

FISCAL RULES IN PRACTICE

14. The above represents the theory of why we might expect a system of fiscal rules to lead to better fiscal management. But what has been the actual experience of fiscal management under the golden and sustainable investment rules compared to previous periods without fiscal rules?

Performance on Public Borrowing

15. Figure 1 shows both the current balance budget and public sector net borrowing (PSNB) as a percentage of GDP. The current budget balance is the difference between tax receipts and current public spending. It is thus the variable against which the golden rule is judged. Since over an economic cycle the government will borrow only to invest the golden rule requires that the current budget be in balance or in

17 This assumes interest rates at least stay constant. If interest rates rise in response to a rising debt to GDP ratio then this effect will be accentuated.
surplus with more collected from taxation than is spent on current or non-capital uses. PSNB is a measure of overall borrowing being the difference between total public spending, current and capital, and tax receipts. In Figure 1 an excess of spending over tax receipts i.e. borrowing is shown in negative terms to put it on the same basis as the current budget.

16. It is clear from Figure 1 that smaller public sector deficits have been run since the introduction of the current government’s fiscal framework. Indeed both the mid-1970s and the early to mid 1990s saw large overall deficits of 6 to 8% of GDP much larger than anything that has been seen in recent years. With regard to the current budget it is clear that this was in deficit from mid-1970s through to 1997 with the exception of a brief period in the late 1980s, and indeed substantial deficits of around 5 to 6% of GDP were run in the early to mid 1990s.

17. As Table 1 shows the golden rule was clearly not met in previous economic cycles. So far in the current economic cycle the golden rule is being met and the Treasury expects it will be met over the whole of the current economic cycle, which they project will end in 2008–09. Some commentators project that the golden rule might be just be missed. However even if this turns out to be the case it would mean a much smaller average deficit on the current budget than seen in previous economic cycles and thus much improved fiscal management. Over the same periods, total borrowing as measured by PSNB has also been dramatically lower since the introduction of the Government’s fiscal rules compared to previous economic cycles.

18. The picture that emerges from considering data on the current budget balance and PSNB over the last 30 to 35 years points clearly to improved fiscal management since the introduction of the current Government’s fiscal rules.
19. As we have noted above the outcome for fiscal aggregates such as the current balance budget and PSNB depends not just on governments’ fiscal management but also the state of the economy. Thus a government may end up borrowing substantial amounts not because of poor fiscal management but because of a downturn in the business cycle. Given this we should also consider cyclically adjusted measures of the current balance and PSNB in making judgements about fiscal management. When we do this, similar to the discussion above, the picture that emerges is that the cyclically adjusted current budget balance and PSNB have been in better shape since the introduction of the current fiscal rules.

Performance on levels of public debt

20. Figure 2 shows the path of public sector net debt and core debt over the last 30 years. The measure of core debt strips out the impact of the economic cycle on debt levels. As noted before weak economic activity leads to increased borrowing which adds to the stock of public debt. Data on core debt is only available back to 1986–87. The ratio of public sector net debt to GDP generally fell in the period up to the early 1990s. Then between 1990–91 and 1996–97 it rose strongly from 26.2% to 43.6% reflecting the large public sector deficits of the period—see Figure 1.

Figure 2: Public sector debt

![Figure 2: Public sector debt](image)

Source: Public Expenditure Statistical Analysis (PESA) 2006, HM Treasury

21. In the period since the introduction of the current government’s fiscal framework the debt ratio initially fell to 30.6% in 2001–02 before rising to 36.2% by 2005–06. Despite this rise the debt to GDP ratio remains significantly below the average for the 1974–75 to 1996–97 period of 41.5%.

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18 Of course it is also possible that a government’s poor macroeconomic policy may unnecessarily worsen an economic downturn. It is however beyond the scope of this paper to consider the performance of macroeconomic policy over the last 35 years.
Performance on debt interest payments

22. Figure 3 shows public sector debt interest payments both as a percentage of GDP and in real terms.

![Figure 3: Public Sector Debt Interest Payments](image)

23. On both bases it is clear that debt interest payments have been lower since the introduction of the current fiscal rules than they were previously. Despite the increase in public borrowing and the debt-GDP ratio in recent years the percentage of GDP taken by debt interest payments has risen only marginally from 2.1% in 2002–03 to 2.2% in 2005–06. In contrast, on average between 1987–88 and 1996–97 debt interest payments averaged 3.6% of GDP.

Conclusion on recent management of the public finances

24. The evidence on public borrowing, public sector debt levels and the burden of public debt interest payments in this section produces a clear conclusion. In accordance with our expectation on the basis of economic theory the management of the public finances has been improved by the existence of the Government’s two fiscal rules. We thus strongly support the continuation of the basic fiscal framework that the Government has put in place. Our case is thus for a modernisation of the rules within the existing framework rather than radical change and certainly not for their abolition.

Modernising the Sustainable Investment Rule

25. Why are we focussing our reform proposals on the sustainable investment rule rather than the golden rule? Various reforms to the golden rule have been suggested. Some of these suggestions are not without their merit but our proposals focus on the sustainable investment rule for purely pragmatic reasons. It might be possible to improve the workings of the golden rule but it is the sustainable investment rule that is our priority as it is about to constrain necessary and worthwhile major public investment of benefit to UK economic performance. The Government’s fiscal rules distinguish between current and capital spending. We believe that the Government should also consider distinguishing between public investments that support economic growth and generate revenues and which are (if worthwhile) thus ultimately self-financing and those whose benefits are non-financial and thus not self-financing. In addition, regardless of the coverage of the sustainable investment rule there are a number of arguments that suggest the rule’s current 40% ceiling for the ratio of public sector net debt to GDP should be raised.

Growth/revenue generating investments

26. The Government should consider drawing a distinction between public investments that increase economic growth, generate revenues and those that do not. For example, investments in transport infrastructure should generate additional fares revenue. Hence the revenues from such investments can at least help with the financing of the initial investment. Good transport links are also important for a successful economy, providing access to jobs and services, facilitating movement of goods and attracting investment. Thus investments in improved transport infrastructure should promote economic growth—increasing the size of the tax base that can be used to fund increased public services or reductions in tax rates.
27. In contrast, much public investment does not generate financial returns. For example, public investment in a new hospital may well be justified on the basis of the benefits it generates in terms of improved health outcomes but with NHS services provided free at the point of delivery it will not generate any revenues, and given the stage of development that the UK has reached improvements in public health are unlikely to have any material impact on economic growth.

28. Some temporary increase in the level of public debt should be acceptable if the projects it finances provide sufficient economic benefit and consequent increase in tax revenue. The debt associated with borrowing for such projects should therefore be exempt from the sustainable investment rule’s ceiling on the debt to GDP ratio. This would be in the spirit of the assessment of general government debt for the European Union’s stability and growth pact. The definition of public debt used is one established by Eurostat. Under these rules a public corporation that receives more than 50% of its income from sales is not considered to part of the general government sector and therefore any debt in these organisations does not count towards Eurostat’s definition of government debt. Under these criteria debt associated with London Underground past and prospectively future investments for example would not count as government debt since London Underground receives a majority of its income from fare revenues.

29. If such investments were outside of the scope of the sustainable investment rule some other mechanism may well be required to ensure that such projects really are worthwhile and that they will deliver sufficient revenue flow backs to ensure that the costs of the initial investment and associated borrowing are met. Otherwise there is a substantial risk that such a change to the sustainable investment rule will be, or will be seen to be a mechanism for merely avoiding the disciplines of the existing fiscal rules for short run political advantage at the expense of long term economic policy.

**Investment Board and Infrastructure Fund**

30. London First in their submission to the Eddington Transport Study examining the long-term links between transport and the economy has suggested the establishment of a Transport Investment Board. Under their proposal, access to borrowing exempt from the sustainable investment rule’s ceiling would have to come via a ring-fenced infrastructure fund, managed by a Transport Investment Board. Access to this fund, and exemption from the sustainable investment rule, would depend on the Board’s assessment that such investments were truly capable of generating revenues sufficient to repay the costs of financing the investment so that any increase in public debt associated with this project was only temporary. The corollary of this is that such investments would only be exempt from the sustainable investment rule for a certain period of time—the period over which the Board determined the costs of the investment should be paid back. This would ensure that if, despite the due diligence exercised by the Board in their initial appraisal, a project failed to generate sufficient revenues to payback within this period then the outstanding debt associated with the project would become covered by the sustainable investment rule’s ceiling thus ensuring continued prudent management of the public finances.

31. It would be for the Board to ensure that the projects it managed could be financed within the infrastructure fund’s budget. As well as vetting projects to ensure they would produce an adequate return, the Board would need to be satisfied about their governance structure and project management capability and would monitor progress against budget and timetable. The Board would bring together members with a successful track record in running relevant businesses and provide a centre of expertise in management and delivery of big projects.

32. The coverage of such a board could be widened to include not just transport infrastructure but also all sorts of public investment with the potential to generate future revenues and thus be ultimately self-financing. The details of how such a body might operate clearly need to be developed in greater detail. But the idea is worthy of further consideration by government as a way of allowing revenue and growth generating public investments to go ahead outside of the scope of the sustainable investment rule but without undermining prudent and responsible management of the public finances.

**Sustainable Investment Rule’s 40% ceiling**

33. In addition, to the above argument there are a number of arguments that suggest the rule’s current 40% ceiling for the ratio of public sector net debt to GDP should be raised.

**Fiscal projections**

34. The Treasury projects that the debt to GDP ratio will rise and then stabilise at 38.4% by 2010–11. In contrast, GLA Economics latest projections show the debt to GDP ratio reaching 39.5% by 2010–11—just below the sustainable investment rule’s 40% ceiling. A very similar view is taken by the Institute for Fiscal

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19 London First is a business membership group supported by 300 of the capital’s leading businesses.
Studies (IFS) whose January 2006 Green Budget projections indicated that public sector net debt was expected to reach 39.6% of GDP by 2010–11. Thus by 2010–11 the sustainable investment rule’s ceiling of 40% is likely to be all but hit. Also the basis of these projections does not include the financing costs of any major infrastructure projects that might be recommended by the Eddington Transport Study which is currently examining the long-term links between transport and the economy.

**Treasury investment plans**

35. The 40% ceiling is also unlikely to be able to accommodate Treasury’s existing indicative plans for public investment. On the assumption that the current budget is in balance ie the golden rule is just met, then with public sector net debt at 40% of GDP, inflation (GDP deflator) at 2½% per annum and economic growth of 2½%, then the government can sustain borrowing and so public net investment of 2% of GDP per year (40% of the 5% growth in money GDP) whilst keeping public sector net debt at 40% of national income. Higher investment will take the debt GDP ratio above 40%. Lower investment will allow the debt GDP to decline from 40%. The Treasury’s latest projections as set out in Budget 2006 through to 2010–11 envisage net public investment at 2.3% per annum. In order to achieve this on a sustainable basis and assuming 5% growth in money GDP would require an increase in the debt to GDP ratio to 46% of GDP. Thus keeping public net investment to just 2% of GDP would potentially sacrifice worthwhile public investment. This argues for an increase in the sustainable investment rule’s 40% ceiling on the debt GDP ratio.

**Redefinition of public sector net debt: The impact of PFI and PPP related debt**

36. In addition, on 20 September 2006, the Office for National Statistics (ONS) announced the results of changes to the treatment of the debt associated with the Private Finance Initiative (PFI) and Public Private Partnerships (PPP) that increase the official measure of public sector net debt (PSND). PSND now includes debt associated with projects undertaken by the private sector under PFI/PPP, where government accountants and their independent auditors judge that the public sector has taken on the risks of owning the asset concerned, such as the obligation to undertake repairs, and where that new asset or improvement to an existing asset is operational. The effect of this change is to increase PSND by £4.95 billion in March 2006. By itself, this change would have increased the debt to GDP ratio by 0.4%. However, because of recent upward revisions to estimates of GDP, the overall change added just 0.1% to the debt to GDP ratio. In the future, there will be further additions to PSND by the outstanding value of projects that become operational. On the other hand, PSND will also be reduced by payments made by the public sector to the private sector that cover part of the liabilities which are already included in PSND. Thus it is not easy to judge the longer term impact of this methodological change on the level of PSND.

37. It should be emphasised that this change in the definition of public sector net debt leads to an upward revision to the public debt-GDP ratio for purely methodological reasons (nothing in the real world has changed). Thus as the IFS have commented, “it could be argued that a significant change in the definition of net debt should be accompanied by an equivalent change in the ceiling under the sustainable investment rule.”20

**Is there a rationale for the precise ceiling on the debt to GDP ratio of 40%?**

38. While we have argued above that some ceiling on the public debt-GDP ratio is sensible to prevent today’s taxpayers passing an excessive debt burden to future taxpayers this does not make the case for the current particular limit of 40%. It is hard to make a logical economic case that the current ceiling is better in some sense than say 30% or 50%. The Treasury has reviewed attempts to deduce an optimal debt ratio from comparisons with the debt equity ratios prevailing in the private sector and from theoretical and, or empirical studies of the links between investment, interest rates and economic growth.21 However the Treasury concluded that “the range of results obtained illustrate the difficulty encountered in arriving at a precise answer”, and the IFS’s similar conclusion on this approach was “None has given a particularly precise or robust result”.22 It is thus very difficult to argue that the Government would be diverging from an optimal policy stance were they to decide to raise the 40% ceiling in the sustainable investment rule.

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Long run interest rates and the cost of borrowing

39. Currently the cost to the Government of borrowing via long dated government bonds is at low levels by historic standards. Figure 4 shows the path of real interest rates over the last 20 or so years. The longest 20 year forward rate is especially low suggesting that the Government could in particular finance its borrowing at low costs with long dated 20 year bonds. Furthermore research by Morgan Stanley Research has suggested that the level of real interest rates on long dated UK government bonds is now close to 300 year lows—see Figure 5.\(^23\)

Figure 4: Real interest rates: Implied real forward rates at various points of the yield curve

[Graph showing real interest rates over time]

Source: Bank of England; derived from British Government Securities, using VRP model

Figure 5: Long-term real interest rates on UK conventional debt

[Graph showing long-term interest rates]

Source: Morgan Stanley Research


\(^{24}\) We are grateful to Professor Miles and his colleagues at Morgan Stanley Research for making this interest rate data available to us.
40. Given this it is perhaps not surprising that this same Morgan Stanley research concludes that the current very low levels of real interest rates is unlikely to persist. They assess a number of possible reasons why real interest rates could stay at current low levels and conclude:

“We think real yields on bonds issued by the UK government are significantly more likely to be higher in the future than to stay at current low levels or fall further. Yields on long dated index linked bonds have fallen well under 1%. The UK government may look back in 10 years and regret that it issued anything other than long-dated index-linked bonds at yields under 1%. We believe that issuing long-dated inflation proof debt represents a good deal for future taxpayers. . . . Locking in at today’s low real yields by issuing long-dated indexed debt is therefore sensible.”

(David Miles and Niki Anderson, page 132 in Chapter 6, Funding issues and debt management in the IFS Green Budget, January 2006)

41. In our opinion, the corollary of this argument is that now is also the time to undertake worthwhile long term public investments when the Government can take advantage of the very low cost of borrowing that is unlikely to persist. Crossrail, which it is estimated would lead to an extra £31 billion of UK GDP over 30 years, is certainly one of those investments. Delaying investment to try and keep it within the current 40% ceiling in the sustainable investment rule risks backfiring on the Government as the costs it ends up paying to finance such a major project may increase substantially with higher real interest rates in the future.

Consistency between microeconomic and macroeconomic policy

42. In its most comprehensive account of the Government’s reformed framework for macroeconomic policy the Treasury stated that:

“. . . judgements on the desirable public debt ratio for any one country are contingent on . . . the worthwhile investment opportunities that are available to the government.”


43. We agree. In short this is the argument we are making for an increase in the sustainable investment rule’s 40% ceiling on the debt to GDP ratio. Potential projects may have sound economic benefits and clearly pass the Treasury’s micro-economic rules for investment as set out in the Green Book (2003)25, but then there is a risk that they could be substantially delayed, because of the current formulation of the sustainable investment rule. This raises an important question for the government’s investment strategy, which is whether, if there are a potentially good investment projects or portfolios of investment projects, it is right that these should be constrained by the sustainable investment rule, or whether it is right that, if achievable, the sustainable investment rule should be modified to enable such beneficial projects to go ahead, without jeopardising responsible management of the public finances.

44. Our contention as set out in this paper is that it is in our nation’s interests to modify the sustainable investment rule to allow beneficial investment projects to proceed, whilst maintaining necessary and beneficial responsible management of the public finances.

Possible dangers of higher public debt

45. While we believe that there is a strong case for raising the sustainable investment rule’s 40% ceiling for the debt to GDP ratio, we do need to address the not unreasonable concerns that are raised about the potential dangers of higher levels of public debt. These are usually taken to be three inter-related dangers:

— Governments’ future ability to find buyers for public debt is affected.
— Leads to an increase in interest rates and increases the perceived risk of holding debt.
— Implies a high level of debt servicing on future taxpayers.

46. Suppose that a government is continuing to borrow and that the debt-GDP ratio is rising. At some point it will become very difficult for this ratio to rise further because investors are no longer willing to purchase further government debt. For example, at high levels of debt investors may start to fear that the government will no longer be able to service its debt and thus will either default on it, attempt to reduce its real value by driving up inflation or renegotiate it, which reduces the value of the outstanding debt to investors. In such circumstances, the ability of government to boost weak economic activity in a cyclical downturn by increasing borrowing may be highly constrained because they will be unable to issue government debt to fund such borrowing. They may even be forced to raise taxes to keep borrowing in check adding to the forces pulling down economic activity. The effective choice may be between not increasing borrowing and seeing the economy move into recession or funding borrowing by printing money. The latter potentially leading to too much money chasing too few goods i.e rising inflation.

Risks of Debt Repudiation

47. These problems are only pertinent where debt to GDP ratios have reached very high levels. An increase in the debt to GDP ratio from say 40% to 50% carries no risk that a government will seek to repudiate its debt. Debt repudiation is a costly option of last resort. A government reneging on its promises to pay debt will find it very difficult to borrow again for a long time into the future. Investors will remember what happened and be reluctant to lend again. Any funds such a government does manage to procure are likely to be on very costly terms, as investors demand a substantial risk premium against the possibility that the government might repeat its bad habits.

Seignorage

48. The chances of any UK government seeking to reduce its debt burden by allowing inflation to rise ("seignorage") are also very small. For seignorage to have a significant impact on a country’s level of public debt requires a large increase in inflation over an above the rates prevailing in the economy. Such an approach would be next to impossible in the UK within the current framework for monetary policy. The independent Bank of England is required to keep inflation at 2%. Thus any attempt by government to inflate away its debt burden would be counteracted by the Bank of England raising interest rates to keep inflation stable at 2%. In order to generate higher inflation, the government would have to explicitly reject its own framework for monetary policy. This is inconceivable as there is a general recognition across the political spectrum of the benefits of low and stable inflation.

Risk of Higher Interest Rates

49. Clearly linked to the above danger is the potential risk of higher interest rates. In order to persuade investors to continue to purchase government debt in spite of the high levels of outstanding debt the government may have to offer higher returns on holding that debt ie raise interest rates. The perceived risk of holding debt would be higher and investors would thus demand a higher risk premium. Higher interest rates in turn are expected to lead to a crowding out of private sector investment to the detriment of long term economic growth.

50. Again this risk is unlikely to be germane for an increase in the debt GDP ratio from 40 to say 45 or 50%. Indeed two recent UK studies of the link between public borrowing, public debt and interest rates are not consistent with the conventional wisdom that higher public borrowing and debt leads to higher real interest rates. Research by Morgan Stanley26 suggests that an increase in the debt ratio leads initially to a very small temporary increase in real interest rates but that the long run impact of higher debt levels is to reduce real interest rates by a very small amount. Research by PricewaterhouseCoopers27 reaches similar conclusions, although their estimated impact on interest rates of a higher debt to GDP ratio is not statistically significant. Using these two pieces of research suggests that the long run impact of say an increase in the public sector debt from 40% to 50% of GDP would be to reduce interest rates by 0 to at most ½ of a percent. For all intents and purposes the path of real interest rates appears independent of that for the debt-GDP ratio as long as this ratio is not at an excessive level. Such results are not unexplainable. With increasing integration of capital markets across the world, real interest rates will be determined increasingly by the global supply of savings and demand for investment rather than by national factors.

51. We do not deny that very high levels of public debt are likely to induce a risk premium on interest rates. The results of the above research will primarily reflect the relationship between debt levels and interest rates at the more frequently observed lower levels of the debt to GDP ratio, and are thus of relevance to the case where public debt might be increased from 40% to 45 or 50% of GDP.

The level of debt interest payments

52. An increase in debt levels implies a higher level of debt interest payments. This takes up part of public spending that would otherwise be available for spending on public services or money that could be returned to taxpayers in the form of tax cuts. On the basis of Treasury estimates an increase in the debt to GDP ratio from 40% to say 50% could consume resources equivalent to around 0.7% of GDP each year28. With debt interest payments currently just under 2½% of GDP a year, this implies an increase to at most 3% of GDP per annum just below the average for the period 1987–88 to 2005–06 of 3.1% of GDP per annum. Such a level of debt payments can hardly be seen as excessive. Its remains however true that higher debt levels today imply lower spending on future public services or higher future taxes. These are the opportunity costs to future taxpayers of the benefits to them of long term investments made today. If these investments are worthwhile and so generate sufficient benefits for future taxpayers then this is not an unreasonable deal for tomorrow’s taxpayers.

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Conclusion on the potential dangers of higher debt to GDP ratios

53. The dangers of higher public debts that are commonly pointed to all require much higher levels of public debt than either 40% of GDP or what debts might rise to with a reasonable increase in the sustainable investment rule’s ceiling on the debt to GDP ratio to 45 or 50%. They are not strong arguments against raising this ceiling.

CONCLUSION

54. The Government has established a framework of rules governing fiscal policy. There are a number of reasons why a system of rules might be expected to lead to more responsible management of the public finances than a purely discretionary fiscal policy. Our judgement is that the actual experience of fiscal management under the Government’s two rules has indeed been superior to fiscal management in the 20 to 25 years before 1997. Hence we strongly support the current fiscal framework. Our reform proposals for the sustainable investment rule are thus a modernisation of the existing fiscal framework rather than a radical reform of the current system.

55. The Government’s fiscal rules distinguish between current and capital spending. The Government should also consider distinguishing between on the one hand capital spending that supports economic growth, generates revenues and which are (if worthwhile) thus ultimately self-financing, and public investments whose benefits are non-financial and thus not self-financing. Such an approach would require an assessment of whether investments were genuinely revenue generating and thus eligible to be outside the scope of the sustainable investment rule. The establishment of an infrastructure fund governed by an Investment Board could be one way of achieving this.

56. The sustainable investment rule’s 40% ceiling on the ratio of public sector net debt to GDP will soon bite if its left unreformed. Maintaining this ceiling at its current level may well prevent or delay the Government from investing in worthwhile capital projects that would otherwise be of benefit to the nation. Commonly expressed fears about the risks of higher public debt levels are not a strong argument against raising the ceiling. How high should the ceiling be raised? For the Treasury’s projections for net public investment of 2.3% of GDP to be achieved on a sustainable basis would require an increase in the ceiling to 46% of GDP assuming money GDP grows on average by 5% each year. Respected academic and City economist, Professor David Miles, Managing Director in Economic Research at Morgan Stanley, has advocated an increase in the ceiling to 50%29. An increase in the ceiling to somewhere between 45 and 50% of GDP would be reasonable. An increase of this magnitude would be a sensible pragmatic modernisation of the sustainable investment rule to allow the Government to invest in worthwhile major infrastructure projects in support of economic growth, and take advantage of the current historically low interest rates available on long dated government bonds. It would not be, and should not be seen as, an abandonment of fiscal discipline on the part of the Government.

October 2006

Memorandum submitted by EEF

ABOUT US

1. EEF is the representative voice of manufacturing, engineering and technology-based businesses with a membership of 6,000 companies employing around 800,000 people. Comprising 11 regional EEF Associations, the Engineering Construction Industries Association (ECIA) and UK Steel, EEF is one of the leading providers of business services in employment relations and employment law, health, safety and environment, manufacturing performance, education, training and skills.

INTRODUCTION

2. EEF welcomes the Treasury Select Committee’s decision to undertake a short inquiry into some of the emerging issues from the comprehensive spending review process. The Treasury’s July document on the Spending Review sets out some useful measures to achieve efficiency gains in procurement and administration of public spending and to control growth in public sector pay and we look forward to further evidence of progress in this area. Our submission sets out some further proposals for improving the effectiveness of public spending.

3. The zero-based approach to the Spending Review will help to reverse a trend, which has seen government spending as a share of GDP rise from 37.5% in 2000 to 45.9% in 2007 according to OECD statistics. The comparative figures for the eurozone are 49.2% and 46.8%. The gap between the UK and the eurozone has therefore narrowed from 11.7% to just 0.9%. Since 2000 the UK has overtaken the following

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countries in terms of the share of government spending in the economy—Canada, Czech Republic, Germany, Greece, Iceland, Luxemburg, Netherlands, New Zealand, Norway, Poland, Slovak Republic and Spain.

4. We believe that there was a case for an increase in government spending in some areas but have been concerned at the rate of increase that has taken place, both because of the implications for taxation and the danger that the money would not be spent productively. The need to finance rising public spending means that the UK is losing its competitiveness on tax. Between 1997 and 2006, the UK tax burden has increased while falling in the OECD, the eurozone and the United States. In 1997, the UK tax burden was marginally above the OECD average. The OECD average is now a full four percentage points lower than in the UK while our advantage with the eurozone has narrowed from 7.4 to 2.8 percentage points.

5. For manufacturers—who struggle to pass on increased costs to their customers—higher taxes either eat into margins or lead to the loss of orders to overseas competitors. Relative tax rates will also have an impact on whether to invest in the UK or abroad. The Spending Review must therefore take firm action in areas where it has identified waste and duplication in all areas of its spending.

6. Business values the support provided in areas such as science and innovation, skills, exports and business improvement and is concerned that some of these areas will face cuts in a tight Spending Review. However, it also believes that these principles must apply to business support and that taxpayers should only fund spending programmes that can demonstrate that they add value or where an attempt is being made to address a market failure.

THE NEED FOR SIMPLIFICATION

7. The government has set out its intentions to substantially simplify business support. Delivering on this is essential if we are to reduce waste and duplication. In addition, it is important to make it easier for business to navigate the system and to access the support that it needs. Failure to do this risks business becoming increasingly disengaged.

8. This is particularly true of the environment in which skills are developed in the UK. Despite the best intentions, the rise in the number of initiatives in recent years has created a bureaucratic structure, which employers struggle to navigate and with which the majority of them have become disengaged. Firms struggle to get the information they need on accessing high quality training and feel they have little influence in getting provision to meet their needs.

9. There are three major fault lines in the UK’s current approach to skills:
   — marrying a regional-led and sector-led approach has created a complex excessively bureaucratic system with duplication of effort across of range of organisations and the introduction of overlapping skills initiatives;
   — skills priorities outlined in regional strategies are driven more by national targets than employer needs. Local funding bodies therefore have insufficient discretion over expenditure outside of these national targets; and
   — there is a separation between bodies responsible for setting the direction of policy—Sector Skills Councils and Regional Skills Partnerships—and those controlling the funding—the Learning and Skills Council at the national and regional levels.

10. In our recent skills report³⁰, EEF sets out detailed proposals to address these problems. These seek to clarify the roles and responsibilities of the main players, to reduce the amount of overlap and duplication of functions and to promote greater transparency in decision-making. Essentially, we argue for a simplified approach based around sectors. Marrying supply and demand together at the sector level makes much more sense for a number of reasons. Sectors reflect distinctly different business activities, many of which have existed for many years, albeit subject to constant change. In contrast, regions are administrative entities, created by government, often bringing together many areas that have little in common with each other. Sectors can also rely on a range of employers’ organisations, trade associations and, to varying degrees, Sector Skills Councils, to articulate their needs.

11. Similarly, there is a need to address the proliferation of publicly-funded organisations that provide advice to business on energy efficiency. In many cases, these organisations have overlapping remits and there is a tendency for provision to follow funding rather than demand.

EVALUATING REGIONAL DELIVERY AND IMPROVING COORDINATION

12. The government needs to look closely at where its regional approach to business support works effectively and where the regime needs to be improved. We believe that there are areas where the government support should be coordinated more strongly with that at the national level. A good example of this is trade support where a regional approach has fragmented the support available to business and has confused the image the UK presents abroad to potential investors.

13. It also needs to review whether the current system of targets encourages Regional Development Agencies (RDAs) to take actions that may help them to hit the targets but that are not necessarily in the national interests. There is also need to simplify the targets under which RDAs operate and also investigate whether resources are being spread too thinly to be effective. For example, our innovation research showed that most companies were seeking to collaborate with organisations outside their immediate region as well as within it but that RDAs were focused on brokering relationships within their own area in order to meet their targets. EEF is currently undertaking research on regional delivery of business support and we will be contributing this evidence to the spending review process.

MODERATE USE OF CHARGING FOR SOME SERVICES

14. In some limited areas, there is a case for charging for part of the cost of the services provided by government to business. For example, mid-sized firms (those employing 250–499 people) fall outside the traditional SME criteria for business support, yet research such as EEF’s recent work on innovation shows that they still face many of the same problems as SMEs and in some cases are worse performers. They will often lack the resources, expertise and competence found in larger firms to take the steps required to move their businesses on to the next level and are therefore likely to benefit from some limited form of business support. At the same time, they are more able than SMEs to fund some of the cost of this. In other cases, part-charging would be a sensible pragmatic move that would allow government organisations to continue providing the existing range of services at a time when funding is being squeezed.

15. In addition, making a charge for some of UKTI’s service offers a way to improve support in emerging markets without cutting back too heavily on existing services. There are already examples of charging such as the Overseas Market Introduction Service and the Export Market Research Scheme, with charging reflecting the level of assistance required. It may be that charges could also vary by firm size. EEF will be looking at the scope for charging in more detail as part of a forthcoming member survey.

STIMULATING INNOVATION

16. In recent years, the government has put increased effort into improving the environment for UK firms to innovate. This has included a substantial increase in science spending, the introduction of the Research and Development (R&D) tax credit and a refocusing of the government’s support for innovation, following reviews in 2003 of links between business and scientific institutions. All these strands have been drawn together in the government’s Ten Year Science and Innovation Framework.

17. To assess the effectiveness of this strategy, EEF conducted a survey of 500 manufacturers and a number of face to face interviews. Overall our research showed that companies were increasing their innovation activity, that it was delivering results and that government support made a difference, although there were clear areas for further improvement.

18. About two-thirds (70%) of innovators had accessed some form of government support in the past three years. Information, research and advice support were common, being used by about half (53%) of innovators. Companies were positive about the relevance of information and advice provided by government but had most problems in finding the right person within the organisations providing it. Barriers to accessing support should be broken down by streamlining and standardising application procedures and by clearer signposting.

19. Innovators receiving government support were more likely to cite improvements in turnover, in accessing new markets, in market share, in productivity and in profitability. They were also more likely to have increased spending in the past three years. Financial support (through grants or the R&D tax credit), general advice and networking had the biggest impact. Gaining help in accessing new markets either through export support or through government procurement was a key factor in driving companies to plan future increases in innovation spending. Assistance with access to public research was also important. Companies receiving government support were also more likely to achieve results from the innovation activity, particularly on turnover, new markets and market share.

20. Our research also indicated that, despite the large amounts of money that the public sector spends procuring goods and services from the private sector and the initiatives undertaken to increase its impact on our innovation performance, most firms felt neutral at best about this. Indeed, in face to face interviews, manufacturers indicated that public procurement remains slow, bureaucratic and risk-averse and did little to stimulate innovation. The government should seek to increase substantially the impact of public procurement on innovation by placing a renewed emphasis on developing the skills of those responsible.

21. The government should also do more to use its research spending to stimulate innovation in the private sector. For example the Technology Strategy Board should play an enhanced role in coordinating the government’s research priorities for investment in future technology and a greater profile in communicating this to the wider business community. RDAs and Research Councils should also work together to match the company needs and research opportunities that the respective organisations have identified.
22. There is also an urgent need to raise the level of R&D in technologies that will deliver greater energy efficiency. There are companies, particularly in energy-intensive sectors, that have implemented energy efficiency measures for a number of years and have exhausted most, if not all, of the potential gains. For these firms, only a step change in technology will deliver gains in energy efficiency and faster reductions in carbon emissions. This requires greater spending on R&D. The government needs to address the lack of an R&D framework that will support the required step change in our energy efficiency and carbon emissions performance.

BUILD ON TRUSTED BRANDS

23. The introduction of the Manufacturing Advisory Service (MAS) has been one of the most popular and effective business initiatives undertaken by government in recent years. EEF’s research showed that lower take up and less effective use of management techniques such as lean manufacturing and high performance working were an important factor in explaining productivity differences with the United States. This sits well with other evidence showing that part of the reason why the United States has posted faster productivity growth in recent years has been that US business has made better use of its investment in IT. While foreign ownership of UK companies has helped to spread the use of modern management techniques through the supply chain, the MAS has helped to accelerate it. It has been well placed to do this, through its use of people with business experience to advise other companies and evaluation of MAS has proved this to be the case.

24. We therefore believe that there is a strong case for continuing to fund the MAS but also to extend its focus to take on a wider definition of business improvement. This could include moving on from lean production to lean enterprises, providing advice on innovation and design and support on energy efficiency and other areas of environmental performance. At the same time, as proposed in the third section of this submission, a MAS adviser could help businesses to think through the implications for the skills in which it needed to invest.

25. There are clearly dangers in extending the remit of MAS too far. This would end up diluting its effectiveness and undermining its reputation. It should also not duplicate what is provided by the private sector. However, we believe that the ideas currently being considered by the MAS Development Board are deliverable and would focus resources on the areas likely to deliver the largest benefit in business improvement. Widening what MAS does would also have cost implications but there should be scope for recovering some of this by charging businesses, particularly for the more intensive support. It would also be appropriate to charge mid-sized firms for access to MAS services.

CONCLUSION

26. This evidence contains EEF’s thinking on what we see as some of the emerging issues as we head towards the next Comprehensive Spending Review. For manufacturers, ensuring that there is sufficient focus on quality business support will contribute to raising the competitiveness of the sector. Similarly, skills and training must be a priority, in order to ensure that business has a skilled workforce to compete with the rest of the world. Moreover, continued emphasis on the science base—and in promoting innovation within business—will help manufacturing be better able to compete in the fiercely competitive global market place of the future.

October 2006

Memorandum submitted by the Public and Commercial Services Union (PCS)

This response by the Public and Commercial Services Union (PCS) to the HM Treasury document Releasing the Resources to Meet the Challenges Ahead: value for money in the 2007 Comprehensive Spending Review focuses on the main themes and policy suggestions of the document, highlighting some fundamental differences PCS has with the core assumptions and philosophy of the document, and the general direction of travel it suggests. It is therefore primarily a critical response.

PCS note that the government’s vision for CSR 2007 includes “an ambitious and far-reaching value for money programme to release the resources needed to address these changes, involving both further development of the efficiency programme in the areas identified by the Gershon review, and a set of zero-based reviews of particular areas of department’s baselines to assist their effectiveness in delivering the government’s long-term objectives”.

This vision is based upon the long-term challenges that public services face. As such, HM Treasury is leading work with departments and external experts to examine these challenges, and “will set out its assessment of their implications for policy making and public service delivery later this year, providing the basis for a wider national debate on how public services should respond”.

PCS has already actively engaged with the government’s reform agenda. A PCS sponsored conference in December 2005, attended by senior civil servants, business leaders and cross-party political figures, made a significant contribution to taking forward the debate. The conference launched a major publication by Professor Roger Seifert and Mike Ironside of the Centre for Industrial Relations, Keele University, “The
Case for Civil and Public Services: An Alternative Vision”, printed and published by PCS earlier in 2005 (copy attached to this submission). The document—which makes a substantial and evidence based argument for well funded, publicly delivered public services, based on the experience and commitment of public servants, whose case studies are included in the booklet—is available in PDF or as a hardcopy from PCS’s Protect Public Services Unit.

PCS has also submitted, in August this year, a detailed response to the Cabinet Office Strategy Unit document “The UK Government’s Approach to Public Service Reform”. PCS’s commitment to high quality, effective public services is therefore a matter of record. It is because of this commitment that PCS has serious concerns about the proposals in the HR Treasury document and, more generally, those likely to emerge from CSR 2007.

PCS’s concerns centre on the programme of headcount reduction that emerged from Sir Peter Gershon’s recommendations and the CSR 2004 that adopted them. There are other areas of reform beyond simply civil service headcount, such as procurement, corporate services, transactional services, and general streamlining. PCS would not deny that some of the reforms in these areas have been valid and beneficial, although many appear to be over reliant on the use of new technologies, and draw on rather obvious methods of avoiding bureaucratic duplication.

PCS is particularly concerned with the section on “Workforce Reform and Administration Savings”, which reports a workforce reduction of 17,769 in the DWP, 4,323 in HMRC, and 14,116 in other departments—a total of 36,280. However, the report presents no substantiating evidence to explain why this is a good thing (beyond savings on the civil service pay bill). It is simply assumed. PCS would contest that this headcount reduction is in any way a genuine “efficiency” in the true sense of the term. It may indeed have cut the wage bill, but, we would argue, at the expense of genuine efficiency and service delivery.

This section concludes that “Based on this early progress on delivering efficiencies on the ground and the wider benefits that the current programme has had in engendering a culture of continuous value for money improvement in the public sector, the government believes there is the potential to pursue even greater levels of ambition over the next spending review period.” There is absolutely no reference to the many criticisms of the Gershon programme that have been made by Civil Service Trade Unions and other bodies such as the Citizens Advice Bureau and the Claimants Union, which fear escalating service failure because of workforce reduction—evidenced, for example, by the conclusions of the DWP Select Committee that headcount reduction in the DWP has lead to a “catastrophic” decline in service quality and delivery. Unfortunately, the HM Treasury report simply assumes “efficiency” in its own terms, and finds that sufficient argument to proceed with a similar programme in the next CSR. PCS find this argument, and this evidence, entirely unpersuasive.

PCS is also most concerned by references in Chapter 3, “Embedding Value for Money in CSR2007”, which confirm that the government is “developing a more ambitious and far reaching value for money programme for the CSR07 years”. It makes much of “Operational Efficiencies” here, which are divided into three strands—corporate services, procurement, and productive time. Under corporate services, it mentions shared services and other forms of collaboration, but remarkably does not consider the option of centralising some 228 different sets of pay bargaining units throughout the civil service, which are a clear and obvious instance of bureaucratic duplication that could be rationalised into one national set of pay negotiations, resulting in real savings and genuine “efficiency”.

There is a noticeable lack of detail in the document on the exact improvements to be gained through the Zero Based Reviews. For example, it references last years’ government policy document “Transformational Government, Enabled by Technology”, and its proposals to rationalise government websites, but does not supply any details of specific projects, much less concrete achievements. Similarly, there is a rather thin list of initiatives under “Transforming Delivery of Services”—eg amongst some apparently self-contradictory projects, it recommends the “scope for delivering face-to-face services in alternative ways such as mobile access”, and the role of third sector “intermediaries” in face-to-face access, both of which sound like simply less face-to-face service, in the sense of meaningful interaction between the public who use a service, and the professionals who deliver it.

PCS feels that the critical weakness of the approach outlined in the report is that the workforce reduction that Gershon has delivered has not, and will not, translate into better service delivery, much less greater access and empowerment, as the DWP example demonstrates. In one particularly questionable reference to the DWP’s Zero Based Review, the document claims “DWP has also achieved significant gains from the rationalisation of services to different client groups through the creation of JobCentrePlus and the Pensions Service”. However, it fails to say what those gains are. PCS would, in particular, highlight and query the following claim, “In the case of the Pensions Service, the workforce has declined by 27% and the number of Pensions Centers will have reduced from 29 to 10 by 2008, while customer satisfaction has continued to improve”. There is no evidence at all to support this, and it is hard to see that there can be evidence on customer satisfaction about a programme not complete till 2008. Indeed, PCS would contend that what evidence there is shows that customer satisfaction has plummeted, in which case this claim is simply false.

Similarly, the document goes into some detail about the Home Office’s Zero Based Review, and lauds its workforce reductions targets, without once mentioning or considering that the now obvious and admitted failures of the Home Office might have anything to do with severe job cuts (1,089) at its London HQ.
PCS is immensely concerned that the government appears to see absolutely no operational issues or problems arising from the Gershon programme thus far, and has now identified further scope to deliver savings of 2.5% per year over the CSR07 period. It seems likely that there will be further severe and unwelcome headcount reduction as part of those “savings”. In PCS’s view, this will extend the “catastrophic” results stemming from these radical workforce reduction targets from DWP to all corners of the Civil Service.

**October 2006**

Memorandum submitted by the Royal College of Nursing (RCN)

**OVERVIEW**

In July 2005 the Chief Secretary to the Treasury announced that the Government was to carry out a Comprehensive Spending Review reporting in 2007 (CSR 07). The CSR 07 will represent a long-term and fundamental review of government expenditure covering departmental allocations for 2008–09, 2009–10 and 2010–11, with allocations for 2007–08 held to the agreed figures already announced at the 2004 Spending Review.

In 2006 the preparatory work for the CSR 07 included an examination of key long-term trends, together with an assessment of how public services should respond. In addition, the House of Commons Treasury Committee has decided to undertake a short inquiry into the CSR 07. As the world's largest professional trade union for nurses, and the voice of nursing across the UK, the Royal College of Nursing (RCN) welcomes the opportunity to contribute to this important process. We have therefore outlined, below and overleaf, some of our key priority areas that we would like to see the Chancellor take into account when drawing up the CSR 07.

**SUMMARY OF RCN PRIORITY AREAS**

To summarise, the RCN suggests the following priority areas for the CSR 07. They are not exhaustive and it should not be assumed that other policy priorities are unimportant or of lesser value. However, in our considered view, they are among the main healthcare challenges facing the UK today and in the coming years:

— **NHS Funding**—sustain the levels of investment needed to ensure that outputs and outcomes continue to improve over the period covered by the CSR 07.

— **NHS Deficits**—develop a long-term recovery plan; establish a sustainability fund; safeguard the education and training budgets; and fund a guaranteed one year employment and preceptor-ship in the NHS for students.

— **Healthcare Reform**—implement a transition plan for delivering care closer to home; prioritise investment in long-term care; fund pilot programmes and develop fully-costed implementation and roll-out plans for all new policies; provide the necessary resources to enable the government to properly consult and fully involve all stakeholders in the reform process; ensure continued financial support for nurse led services and nurse driven innovations.

— **Nursing Workforce**—the CSR 07 should be used to improve nursing recruitment and retention levels, tackle the nursing retirement challenge and deliver a fair pay settlement for nurses.

1. **NHS Funding**

1.1 After taking into account economy-wide inflation the real increases in health spending during Labour’s first three years in office were lower than real growth in the economy. Consequently, health spending declined slightly as a share of national income (ie from 5.5% of national income in 1996–97 to 5.4% cent of national income in 1999–2000).

1.2 Since then, however, the NHS has received the largest sustained increase in spending since its creation in 1948. This increased spending equated to 6.9% of national income in 2004–05 and, under the increases that were announced as part of the 2004 Spending Review, health spending is set to increase further to 7.9% of national income in 2007–08. If delivered, this should bring total healthcare spending (including private spending) in the UK to around the weighted average of health spending across EU countries as it stood in 2002.

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1.3 Spending in cash terms has doubled from £34.7 billion in 1997–98 to £76.4 billion in 2005–06 and will rise to £94.3 billion in 2007–08. And, the large increases in NHS funding have been allocated with the intention of providing higher quantity and quality of care than would otherwise have been possible. In other words, a key objective of the extra resources was to increase NHS outputs. Although measuring the outputs of the health service can be problematic there is a credible measure employed by the Office for National Statistics for use in the UK’s National Accounts.

1.4 So, for example, using this measure it can be seen that, over the three-year period from 1996 to 1999, outputs grew by an average of 2.7% a year while, over the three-year period from 1999 to 2002, they grew by an average of 3.9% a year. Moreover, outputs increased faster in each of the last three years, when health spending was growing more quickly, than it did in any of the first three years, when health spending was growing less quickly.33

1.5 Based on the evidence to date, the RCN believes that the increases in health spending as a share of national income planned through to 2007–08 should aid further improvements in measured NHS outputs. However, the welcome progress made in recent years as a result of the extra investment will, in the RCN’s opinion, be put in serious jeopardy if the level of NHS funding is reduced after 2008.

1.6 The RCN would therefore urge the Chancellor to sustain a level of NHS funding increases greater than the expected growth in the economy over the period covered by the CSR 07. Indeed, this is a view supported by the Wanless Report of 2002, which recommended that increases greater than the expected growth in the economy would need to continue at least until 2017–18, in order to improve health outputs and clinical outcomes and to close what it described as the “considerable gaps in performance between the UK and other developed countries”.34

2. NHS Deficits

2.1 RCN research shows clearly that deficits are leading to a significant loss of NHS posts, health services are being cut and patient care is suffering as a consequence.35 We are therefore convinced that the response to this crisis must be long-term and solutions focused, rather than one based on short-term cost cutting. However, we also believe that any response must reflect the conclusion of the Health Select Committee’s recent report into NHS deficits that the current financial problems are not just the result of local management failures but that “poor central management has contributed to the deficits”.36

2.2 Moreover, hearing in mind that one third of NHS Trusts reported financial deficits last year37, we also endorse the Committee’s view that the scale and spread of deficits means that returning the NHS to financial balance will be no easy task.38 As such, the RCN believes that central government has a key role to play in tackling the deficits crisis.

2.3 In our view, therefore, central government needs to give trusts more time, flexibility and support in order that they can clear their debts. So, for example, trusts should be allowed to operate within a more flexible financial regime in which they have the option to defer deficits for an agreed period of one to three years. In addition, we would recommend the CSR 07 makes provision for the establishment of a centrally funded sustainability (buffer) fund which can be used annually to help achieve balance.

2.4 We are particularly concerned about deficit led cuts to NHS education and training budgets and, like the Health Select Committee, feel that these are having a detrimental impact on students, qualified clinicians and, ultimately, on patient care.39 We would therefore urge the government to use the CSR 07 to ensure the necessary funding to safeguard these vital NHS budgets.

2.5 The RCN research shows that newly qualified nurses are experiencing severe difficulties in finding jobs due to planned redundancies, recruitment freezes and the targeting of Band 5 posts in deficit hit trusts.40 These reports are backed up by evidence from the Council of Deans which reveals that over 80% of students qualifying in summer 2006 were unable to find jobs.41 The RCN therefore regards the CSR 07 as an opportunity to fund a guaranteed one year employment and preceptor-ship in the NHS for students.

35 RCN “Response to the Health Select Committee Inquiry into Deficits” (June 2006).
37 Chief Executive’s Report to the NHS, June 2006.
38 Op cit, House of Commons Health Select Committee deficits inquiry.
40 Op cit, RCN Response to the Health Select Committee.
41 Council of Deans and Heads of UK University Faculties for Nursing and Health Professions: “Survey of employment prospects for student qualifying in summer 2006” (June 2006).
3. **Healthcare Reform**

3.1 The RCN shares the government’s objective of modernising primary, community and social care in order to design flexible, integrated, and responsive health services around the needs of the patient. Over 90% of all patient contacts begin and end in these sectors, they employ more than 250,000 NHS workers and their spending accounts for close to 80% of the entire NHS annual budget. So it’s absolutely crucial that CSR 07 acknowledges the need to modernise and reform them in a way that is effective, workable and sustainable.

3.2 The RCN recognises that a combination of the reform process, advances in medical technology, new clinical treatments, changing UK demographics and a range of public health improvement challenges means that care will be delivered closer to home in the coming years. This not only has implications for patients, it also has an effect on NHS staff and services. The RCN believes that CSR 07 has a vital part to play in helping to manage this process of change. We therefore urge the government to use the CSR 07 to provide the support and resources required to develop and implement a transition plan for moving care, staff and services from the acute sector to the community and for delivering care closer to home.

3.3 Among the key long-term trends and challenges identified by the government in respect of the CSR 07 are demographic change, the rapid increases in the old age dependency and the implications for public health policy that follow on from these. The RCN would therefore urge the government to prioritise investment in long-term care.

3.4 The RCN particularly supports the view of the Royal Commission on Long-Term Care (1999) that all personal care should be free to all those who need it. The Royal Commission stated that personal care should cover all direct care related to:

- Personal toilet (washing, bathing, skin care, personal presentation, dressing and undressing and skin care).
- Eating and drinking (as opposed to obtaining and preparing food and drink) managing urinary and bowel functions (including maintaining continence and managing incontinence).
- Managing problems associated with immobility.
- Management of prescribed treatment (eg administration and monitoring medication), behaviour management and ensuring personal safety (for example, for those with cognitive impairment—minimising stress and risk).

3.5 In addition to supporting the above Royal Commission recommendation the RCN has developed the following set of core principles around long-term care which, we believe, should inform the Treasury’s thinking when deciding on the CSR 07 priorities:

1. Older people have a right to be independent and treated as citizens with a broad range of concerns
2. There should be sufficient funding to meet the needs of older people in care homes. This must include the introduction of an agreed mechanism for calculating the actual cost of care that includes and emphasises the contribution of registered nurses.
3. Funding must provide for a staff ratio and skills mix that will promote the independence of residents and recognise the contribution of registered nurses.
4. There should be a multi-agency approach to assessing the health and social care needs of each individual.
5. Nurses have a key role to play in the assessment process.
6. Older people should be partners in assessing and planning their health and social care needs.
7. There must be National Minimum Standards and care providers should be encouraged, supported and given the resources so that they can deliver continuous improvement as well as quality care.

3.6 If healthcare reform is to deliver quality care for patients and value for money for taxpayers then, in our view, it must be evidence based. The CSR 07 should therefore provide the necessary levels of investment to fund pilot programmes and develop fully-costed implementation and roll-out plans for all new policies. The RCN believes that this approach would enable the proper assessment and analysis of the likely impact of reform proposals.

3.7 For reform to be effective, workable and sustainable it must have the input and the support of staff and clinicians, patients and the public, as well as the organisations that represent them. Consequently, the RCN believes that the CSR 07 should provide the necessary resources to enable the government to talk to, work with, listen to, engage, involve and properly consult stakeholders on all health service reforms, reconfigurations and redesigns.

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43 HM Treasury: Long-term opportunities and challenges in the CSR 07.
44 Royal Commission on Long Term Care (1999): With respect to old age.
3.8 Successful consultation-based reform also requires sufficient time and sufficient funds. However, NHS managers and staff are under enormous pressure to deliver the government's modernisation agenda precisely at a time when there is uncertainty about the level of NHS spending beyond 2008. Failure by the government to match investment in the NHS with their ambitions for reform of the NHS could have serious practical, clinical and political repercussions. The RCN therefore urges the government to end the current uncertainty by using the CSR 07 to provide the sustained and long-term NHS investment required to fully fund their reform proposals.

3.9 Nurses have been at the forefront of modernising health services. For example, nurses have taken on a range of new prescribing responsibilities; they have adopted flexible ways of working that have reduced waiting times and waiting lists; and they are also taking on new leadership roles, such as consultant nurses and modern matrons. Nurses are working as lead clinicians in primary care, in home care support services and in the management of chronic diseases. In primary health care practice nurses, nurse practitioners and other community nurses are revolutionising patients’ access to services. And, nurse-led services are increasingly being developed in acute hospitals. Nurse-led services and nurse driven innovations are transforming healthcare and the RCN therefore believes that the CSR 07 should provide a financial framework for their continued support, development and success.

4. Nursing Workforce

4.1 The delivery of high quality patient care depends crucially on having a sufficient pool of skilled nursing staff to meet the demands of the service now and in the future. However, although there has been a welcome headcount increase in the number of nurses since 1997, this has been accompanied by an increase in workloads for the entire nursing family as the number of patients treated has risen. Moreover, the headcount rise has not resulted in significant improvements in staffing levels in NHS wards. In fact, there was no change in the overall nursing staff-patient ratio on NHS wards for 2005 when compared to 2001. In effect, this means that there is actually an underlying nursing shortage.

4.2 There is also a nurse retirement time-bomb in UK healthcare (ie there is an ageing nurse population and it is estimated that 180,000 nurses are set to retire in the next 10 years). This means that the UK will need even more nurses, rather than fewer, in the years to come. In addition, the underlying shortage of nurses is masked by the reliance of the health service on the unpaid work nurses carry out beyond their contracted hours (ie 60% of nurses work an average additional six hours per week).

4.3 The RCN therefore urges the government to commit itself, through the CSR 07, to sustained investment in recruiting, retaining, educating, training and developing nursing staff—across the entire nursing family from health care support workers to consultant nurses—in the numbers needed to address the current underlying shortages characterising, and the future retirement challenges facing, the UK’s healthcare sector.

4.4 Pay levels are fundamental to the ability of our health service to recruit and retain the skilled nurses needed to deliver quality patient care. The RCN is therefore deeply dismayed at government’s request to the Pay Review Body (PRB) that members of the nursing family receive a below inflation pay settlement of just 1.5%. With the Consumer Prices Index at 2.7%, and the more accurate Retail Prices Index running at 3.9%, that equates to an unjust real terms, pay cut for nurses.

4.5 Nurses are already the worst paid professional group in the public sector. They earn 20% less than primary teachers and 24% less than secondary teachers. And Nurses and midwives in managerial roles also earn significantly less than teachers and police officers without management responsibilities (ie 24% less than primary teachers; 27% less than secondary teachers and 14% less than police officers). The pay of nurses has fallen so far behind comparable public servants that 68% of nurses recently surveyed by the RCN said they had been forced to undertake temporary work in order to supplement their incomes.

4.6 If a pay cut is imposed on nurses in the current, or future, wage negotiations, then morale will collapse, recruitment and retention levels will fall and, ultimately, patient care will be adversely affected. The RCN therefore urges the government to use the CSR 07 in a way that enables trusts to fund a significantly above inflation uplift in pay and related allowances.

45 See for example, Department of Health/CNO’s Directorate: Modernising Nursing Careers Sept 2006.
46 Op cit, RNC Response to Health Select Committee deficits inquiry.
47 RCN Labour Market Review 2004–05.
50 Labour Force Survey (January–March 2006).
CONCLUSIONS

The RCN has welcomed the increased spending and extra resources dedicated to the NHS since 1997. In our view they have been crucial in reducing waiting times, improving patient care, raising outputs and delivering reforms.

Much progress has been achieved. But, as we have highlighted in this submission, the UK faces a wide range of healthcare challenges in the years ahead, from deficits to reform and from long term care to nurse recruitment and retention. So, as the professional union representing 400,000 nurses caring for a million patients a day, the RCN believes it is absolutely crucial that we meet the future challenges by maintaining the recent progress.

The RCN therefore urges the government to use the Comprehensive Spending Review 2007 as the ideal opportunity, and the fiscal mechanism, to do just that.

December 2006

Memorandum submitted by Norwich Union

Norwich Union would like to respond to your inquiry on the Comprehensive Spending Review, but only relating to flood defence expenditure. I therefore hope that this letter forms a suitable submission on the issue for your Committee’s consideration.

As the Government’s Report Long-term opportunities and challenges for the UK: Analysis for the 2007 Comprehensive Spending Review recognises, “In the UK the effects (of climate change) will be mainly mediated through water, with increases in the number of flood and drought incidents expected.” The Association of British Insurers’ (ABI) recent report, Coastal Flood Risk—Thinking for Tomorrow, Acting Today recognised that a sea level rise of 0.4m is highly likely by the end of this century, causing considerable damage to thousands of homes and businesses across the UK. Norwich Union agrees with the ABI’s statement that considerable extra investment is required over the next 25–30 years to help safeguard thousands of properties—not just on the coast, but also inland areas at risk from flooding.

The effects of climate change have been well-recognised by the Government, with the 2007CSR Report noting that ”environmental damage has the potential to undermine long-term prosperity in the UK and in all countries.” Norwich Union welcomes the Government’s comments and the recognition that climate change will have a huge impact upon the UK in numerous ways. Recent floods in Carlisle and Great Yarmouth highlighted the adverse weather conditions that we are now seeing on an increasing basis, events which cause not only considerable damage, but also high levels of personal distress. During the Carlisle floods in 2005, many homeowners spent up to 12 months away from their houses, with many personal possessions ruined. Many businesses in the area were also forced to close for considerable periods of time, with some even forced out of business, resulting in serious long-term problems for the local economy.

However, like the ABI, we were concerned by the Environment Agency’s (EA) announcement made in August 2006 that the flood defence budget for 2006–07 would be cut. Despite reassurances that this would not affect capital spend, Norwich Union feel that any cut to the EA’s flood defence budget may prove very damaging at a time when the UK is faced with increasingly diverse weather conditions as a result of climate change. We were reassured by the recent announcement that for 2007–08 this spend will be increased to £436million, but feel that this does not demonstrate an increase in real terms, merely bringing the budget back to the spending commitment made in 2002. Norwich Union believe that flood defence spending should therefore be more highly prioritised in the Comprehensive Spending Review. In our view there needs to be not only a continuation of the real-term flood defence spend, but also a significant year-on-year increase in real funding, to help cope with the increased threats of flooding that climate change brings. This spend is essential to help ensure that properties will be protected and can remain insurable—without this assurance there is a growing risk that properties will become uninsurable, resulting in significant problems not only for many businesses and homeowners, but also for the UK property market in general.

Both the ABI and the Government have the scientific proof that sea levels will rise, and that as a result of this more properties will be at risk from flooding. We hope that the Comprehensive Spending Review will reflect this ever-increasing threat.

We look forward to following your inquiry and await the Committee’s report with interest.

January 2007

53 ibid, Para 7.2.
MEMORANDUM SUBMITTED BY CHILD POVERTY ACTION GROUP (CPAG)

EXECUTIVE SUMMARY

In July 2005, the Chief Secretary to the Treasury announced that the Government intended to launch a comprehensive spending review reporting in 2007. The 2007 spending review will cover government departmental expenditure allocations for 2008–09, 2009–10 and 2010–11. The spending review, therefore, covers the spending period to 2010 and is key to the Government’s target of halving child poverty by 2010 and eliminating it by 2020. To ensure that the Government meets its child poverty aims, CPAG recommends that the 2007 comprehensive spending review should do the following.

— Provide most for those children at greatest risk of poverty.
— Work towards better jobs, not just more jobs.
— Ensure the safety net protects families against poverty.
— Maximise the contribution of child benefit within family support.
— Introduce free at the point of delivery good-quality childcare.
— Make the reduction of child poverty central to the new child support policies.
— Make education truly free at the point of delivery.
— Provide benefit entitlement to all UK residents equally, irrespective of immigration status.
— Reduce the disproportionate burden of taxation on poorer families.
— Improve the quality of delivery and gear it to the needs of the poorest families.

INTRODUCTION

In July 2005, the Chief Secretary to the Treasury announced that the Government intended to launch a comprehensive spending review reporting in 2007. The 2007 spending review will cover government departmental expenditure allocations for 2008–09, 2009–10 and 2010–11.

It, therefore, covers the spending period to 2010 and is key to the target of halving child poverty, and for delivering Tony Blair’s pledge to rid society of child poverty by 2020.

As part of the spending review process, the Treasury is conducting a “Children and Young People” review, focused on improving service support to families with disabled children, young people and families at “risk of becoming locked into a cycle of low achievement, high harm and high cost.” Although concentrating on the groups facing a high chance of being failed by education and other services, by focusing on services, it does not really engage with incomes. Moreover, many children are left outside its remit, in particular some groups that CPAG identified in At Greatest Risk, such as asylum-seeking children and children in large families. Other activity is, therefore, needed if the targets on reducing child poverty are to be met.

However, the signs are that this is likely to be a tight spending round for both HM Customs and Revenue (HMRC) and the Department for Work and Pensions (DWP). Both HMRC and the DWP are implementing significant staff cuts following the Gershon review, and in the March Budget the Chancellor announced a 5% real-term reduction in each department’s budget through to 2010–11; no doubt partly pre-empting the spending review’s reforms.

This paper is CPAG’s submission to the spending review; it notes and paraphrases other analysis we have produced on specific areas of policy. It sets out the policies and measures CPAG believes are necessary to meet the Government’s targets. But first we assess the Government’s record on child poverty.

THE GOVERNMENT’S RECORD

The Government has made substantial progress in the seven years since Tony Blair’s pledge to eradicate child poverty, and deserves praise for this. When the Government came to power in 1997 child poverty in the UK stood at record levels. In 1996–97, 4.2 million children were living in poor households, compared with 1.3 million in 1968, representing a rise in child poverty from 1 in 10 to 1 in 3 of all children. The UK had the third worst rate of child poverty across the industrialised world in the mid-1990s. Only Russia and the United States had a worse child poverty record than the UK.

The latest child poverty figures are for 2004–05. These show that since 1998–99 child poverty has fallen by 700,000, from 4.1 to 3.4 million, a drop of approximately 17%, on the after housing costs measure. It has also fallen by 700,000 on the before housing costs measure, from 3.1 million to 2.4 million, a drop of approximately 21%.
Still, the Government failed to achieve its target of reducing child poverty by a quarter between 1998–99 and 2004–05. To meet its target on the after housing costs measure child poverty would have needed to have fallen by a further 300,000 to 3.1 million, and on the before housing costs measure by a further 100,000 to 2.3 million. The failure to meet the first child poverty target now means that it will be more difficult for the Government to meet its second target of halving child poverty between 1998/99 and 2010–11.

The second target will be judged on a different measure from the first. The first target used a poverty line of 60% of median income, both before and after housing costs. The second target will just focus on incomes before housing costs, as well as adjusting for family size in a different way (by using the Modified OECD equivalence scale instead of the McClements scales). It will also include a material deprivation index.

The Institute for Fiscal Studies (IFS) calculates that, as a result of missing this year's target by 100,000 (measured before housing costs) and of the way that child poverty will be measured for the 2010–11 target, to reduce child poverty to half the level of 1998–99, child poverty now has to fall by about one million between 2004–05 and 2010–11 in order to meet the Government's target. This represents a fall over one-and-a-half-times greater than the 600,000 fall achieved between 1998–99 and 2004–05 (using the Modified OECD equivalence scale). As the IFS points out:

Unless the Government is to fall short of this target, or there are radical shifts in parental working patterns, new spending will be needed, from extra borrowing, increased taxation or a reordering of spending priorities.

### WHAT SHOULD THE SPENDING REVIEW DELIVER?

In 2005, CPAG published two documents, *Ten Steps to a Society Free of Child Poverty* and *At Greatest Risk: the children most likely to be poor*. Our Manifesto sets out practical policy changes needed to bring about reductions in child poverty, and although there have been some improvements—the Conservative party has signed up to the ambition of eradicating child poverty by 2020, John Hutton has announced that future policy will be “poverty proofed”, and changes to the recovery of tax credit overpayments have been made—the majority of steps remain to be taken. At *Greatest Risk*, profiles the experience of groups of children who face a particularly high risk of poverty, with a poorer quality of life in childhood and poorer outcomes in adult life: children in large families, children with disabilities or a disabled parent, black and minority ethnic children, traveller and gypsy children, those who have been in care and those who have sought asylum in the UK. The challenge for the spending review is to mainstream concerns about these children.

There have been two other notable contributions to the debate. The Fabian Society published the final report of its Life Chances Commission in March, which made a series of practical policy recommendations to make greater use of life chances as a conceptual tool to drive policy to reduce poverty. This was followed in June by the Joseph Rowntree Foundation’s *What Will it Take to End Child Poverty? Firing on all cylinders*. This report, together with the numerous working papers and associated publications produced around it, presents a significant analysis of the problem—to families and society—and discusses and models ways of reaching the 2010 and 2020 targets.

To reduce child poverty, the Government has had recourse to two key mechanisms—increasing incomes through financial support and increasing gains from work, primarily by increasing the employment rate. Alongside this—to reduce future poverty—policy has sought to improve educational outcomes (through the education system, Sure Start and good-quality childcare). More effort is clearly needed here, given the slow progress on narrowing the gap in educational attainment, and this will be vital to reaching the 2020 target and to sustaining a much lower level of child poverty in the long term. But it is the more urgent former set of issues—on which education can build—to which we now turn.

### PROVIDE MOST FOR THOSE CHILDREN AT GREATEST RISK OF POVERTY

CPAG’s recent publication, *At Greatest Risk*, identified those various groups of children who were at greatest risk of child poverty and looked at how to tackle the particular issues that most affect them. The challenge for the spending review is to drive overall policy to deliver most for the most vulnerable children and families. Each of the different policy recommendations in this document suggests ways of achieving this aim.

### LARGE FAMILIES

Studies have consistently found that children in large families are at far greater risk of poverty than children from small families. According to the latest data from the Family Resources Survey, 50% of children in families with four or more children in 2004–05 were poor, compared with 23% in one-child families. As our publication *Child Benefit: fit for the future* points out, there is an overlap between large families and other groups at risk of poverty (such as younger children, minority ethnic groups, those living on benefit and social tenants). Nevertheless, being in a large family is still a specific driver of living in poverty.
The increased risk of poverty for large families is not inevitable. For example, in Norway there is no linear connection between the number of children in a family and living on a low income, with a link only for families with five children or more.

Figures show that child poverty in large families has been falling since 1998–99. This is likely to be as a result of both rising employment and tax credit increases. We welcome this, but much more still needs to be done, for example, by addressing the first-child bias in child benefit, the tax credit family element and childcare subsidy.

CHILDREN WITH DISAbILITIES

According to the Government, there are 770,000 disabled children in the UK. While not all disabled children will experience poverty, they are more likely than their non-disabled peers to live in poverty as a result of lower incomes (because parents need to look after disabled children and so cannot work) and the impact of disability-related additional costs. A re-analysis of the OPCS Disability Surveys calculated that in 1985 almost 55% of families with a disabled child were living in poverty or at its margins. Other research has also shown that, despite changes in disability benefits, disabled children and young people are still more vulnerable to poverty, with those living in lone-parent families and black and minority ethnic families at particular risk. We welcome the focus given to this group in the spending review and, to answer this in detail, CPAG’s latest report, Out of Reach, explores ways of improving the effectiveness of current policy and its administration—by, for instance, maximising the take-up of disability living allowance—to improve the circumstances of disabled children.

CHILDREN WITH DISABLED PARENTS

Children with disabled parents face a significantly higher risk of living in poverty than those of non-disabled parents. It is estimated that over 650,000 children of disabled parents were living in poverty in 2004–05 before housing costs and 840,000 after housing costs. The main reason for this is the key role that work plays in keeping families out of poverty. Disabled parents are much less likely to be in paid work, and also suffer the impact of additional disability-related costs which sap family budgets. Although the benefit system provides higher support for disabled parents than for non-disabled parents, spells of poverty are likely to be much longer for children of disabled parents. And, when the parents of disabled children move into work, the risk of in-work poverty is higher than for non-disabled parents. One reason for this is that disabled parents are more likely to have to take relatively low-paid, parttime and insecure work compared with non-disabled parents.

CPAG supports government policy to increase the opportunity and support (through Pathways to Work) for those workless disabled adults who are able and willing to work. However, we have considerable concerns about the approach being taken to reform incapacity benefit and, in particular, the use of sanctions around employment programmes and non-state contracted providers making and enforcing decisions. The key to increasing the employment rate of disabled adults is to offer effective support and engage with employers to ensure adequate jobs are available. Attempting to force disabled adults into work risks undermining good will, leaving people in unsustainable employment and increasing stress, while doing nothing to reduce poverty.

BLACK AND MINORITY ETHNIC CHILDREN

Households Below Average Income (HBAI) statistics show that children living in households headed by someone from a minority ethic group are more likely to be living in a poor household. This is particularly the case for those households headed by someone of Pakistani or Bangladeshi origin, where around half the children (47%) are living in poverty on the before housing costs measure, and around three-fifths (57%) on the after housing costs measure.

At Greatest Risk points out that the greater likelihood of poverty among minority ethnic groups is the consequence of a number of factors, including: higher than average unemployment levels; minority ethnic communities largely concentrated in inner cities where recession and industrial restructuring have weakened or destroyed older industrial sectors; racism in the selection of people for jobs or redundancy; the greater likelihood of being in low-paid work; inadequate health and housing provision; and, more recently, restrictions on financial help for refugees and asylum seekers.

TRAVELLER AND GYPSY CHILDREN

There is a severe lack of robust quantitative data on gypsy and traveller families, including that on poverty, reflecting their general exclusion and “ invisibility”. For example, the DWP has no separate data on gypsy and traveller work patterns or unemployment rates. And, until recently, successive governments have failed to include gypsies and travellers in national anti-poverty social exclusion/inclusion agendas. Also, they have tended to be sidelined in local anti-poverty strategies. However, since 2003–04 there have
been some positive moves including Social Exclusion Unit engagement with “frequent movers”, the work of the Institute for Public Policy Research on site provision and the targeting of anti-gypsy and traveller racism as urgent priorities in equalities debates by the Commission for Racial Equality.

It is clear that many gypsy and traveller children are “poor” in multiple and different ways. Many are financially poor and there are many dimensions to the “poverty” faced by such groups. One disturbing statistic on health is that only 10% of gypsies and travellers in England and Wales are over the age of 40 and less than 1% are over the age of 65. In education, one recent Department for Education and Skills study found that at least half of gypsy and traveller children in England and Wales drop out of school between Key Stages 1 and 4. The same study also showed very high rates of exclusions. Despite the paucity of robust data on the income of gypsy and traveller families, both anecdotal information and other studies show that some families have few financial resources. Moreover, there has been a decline in previous economic outlets for gypsy and travellers, particularly in the crowded urban environments. And, restrictions on travelling and on working activities on official sites have undermined aspects of the traveller economy. Many find that simply being a gypsy or traveller, and lacking basic literacy skills, prevents them from accessing mainstream wage labour jobs or training. Because of this, access to social security benefits is important for some families. However, research has shown levels of discrimination and disadvantage in accessing the benefit system for those who are frequently nomadic. One writer has referred to specific surveillance directed towards gypsies and travellers on the assumption that they commit benefit fraud, with the result that families can be denied benefit where there is little, if any, evidence of actual fraud.

CHILDREN LEAVING CARE

Young people leaving care are one of the most disadvantaged groups of young people in society. Many have experienced abuse, neglect or difficulties at home, and being in care has often failed to compensate them, so by the time they leave—often at a far younger age than other young people leave home—their life chances are very poor. Research has shown that many are likely to face multiple disadvantages, including poverty. This is a consequence of their pre-care, in-care, leaving care and after-care “life course” experiences including: their poor family backgrounds and damaging intra-family experiences, including abuse and neglect; the failure of care to provide stability and compensate young people in care; low levels of educational attainment and post-16 participation; leaving care at a younger age than other young people leave home; being a young householder; moving often and experiencing homelessness; and being a young parent.

Since the introduction of the Children (Leaving Care) Act 2000 there is evidence of progress in three areas: young people leaving care later; improved qualifications; and improved participation in further education. But there is still a substantial gap between care leavers and other young people in respect of these and other areas. CPAG, therefore, welcomes the Government’s commitment to address this problem—including in the spending review and many of the proposals for change set out in the Green Paper Care Matters: transforming the lives of children and young people in care.

ASYLUM SEEKERS

CPAG believes that the Government’s asylum policy directly conflicts with policies on child welfare, social inclusion and anti-discrimination principles. The difference in treatment of asylum-seeker families is highlighted in a recent report from researchers at the London School of Economics. It found that while poverty had been alleviated for some vulnerable groups over the last seven years, asylum policies have led to a reduction in rights for this group in employment, health services, income and housing. According to the report, policies introduced by the Government have helped to make asylum seekers the most socially excluded group in Britain.

WORK TOWARDS BETTER JOBS, NOT JUST MORE JOBS

CPAG is supportive of the Government’s moves to help more people into work—if this is what people want and if this results in improvements in their and their families’ quality of life. However, policy which over-focuses on paid work may conflict with enabling parents to have sufficient time to parent and, as Lisa Harker puts it in her commissioned report for the DWP, “The 2010 and 2020 targets cannot be met by increases in employment alone.”

Underlying an aspiration to increasing the employment rate is that decent jobs are available. The existence of jobs in the economy does not prove that jobs are open equally to all. Barriers to work, including costs associated with work, the quality of jobs, spatial concentrations of employment and non-employment, skill demands and discrimination mean that not all have equal access to jobs, and certainly not all have equal access to good-quality jobs.

In CPAG’s submission to the Work and Pension’s Select Committee’s Inquiry into the Government’s 80% employment rate aspiration, we recommended that the Inquiry used its report to examine the extent to which policy is currently succeeding in overcoming barriers to work, and what else is required to meet the needs
of those specific groups, lone parents and disabled adults, recently targeted by policy. The evidence also clearly shows that employers have a greater role to play in opening up opportunities to decent, flexible work and overcoming the discrimination that currently reduces access to employment for many groups.

CPAG welcomes the thinking in Lisa Harker’s report that greater effort should be put into looking beyond the work-first approach and towards measures that tackle in-work poverty, improve job sustainability, and prevent cycling in and out of employment. Policy has moved in this direction, supporting people in work through mechanisms like the lone parent in-work credit being piloted under the New Deal for Lone Parents plus, but needs to go further in improving the quality of employment (including pay, sustainability and progression). Learning the lessons from the Employment Retention and Advancement pilots and the Ambition pilots between the DWP and the National Employment Panel could assist the framing of policy more focused on progression within work. An increased employment rate brought about by increased cycling in and out of work amongst lower income families will not reduce poverty and may increase hardship.

In particular, more needs to be done to ensure that employment pays more for low-paid workers. The UK already has a high employment rate, hand-in-hand with a high child poverty rate—half of poverty currently occurs in households with some work. A higher employment rate does not necessarily mean a low poverty rate. The DWP has shown significant interest in encouraging second earners in couples into work, which could have a significant impact on reducing poverty in those couple households where one parent is working and the other is not (of the 57% of children defined as poor who live in couple households, only a tiny minority—2%—have both parents working full time). Such a strategy has the potential to reduce poverty levels, but can do nothing for children in lone-parent households and, again, it restricts the time that parents will have to parent. Moreover, it presents Jobcentre Plus with the challenge of delivering a service to a group with which it has had little previous contact—the key to engaging with this group is to offer a high-quality service to support people’s own ambitions of entering decent family-friendly work.

There is also a need to improve skill levels in order to open up greater access to employment for the (currently) lowest skilled. The first element to this is for educational policies to deliver better and more equal educational attainment. Policies to improve staying-on rates at school, such as the education maintenance allowance are welcome, but the poorest children remain least likely to do well at school, to stay on post-16 and to pursue further study post-18. By way of example: in England in 2005 58.9% of children without free school meal entitlement obtained five or more GCSEs at grades A-C, a small enough percentage but double that of those entitled to free school meals.

More is being expected of Jobcentre Plus from many fronts—a new form of service delivery and welfare reform. Moving towards an 80% employment rate means engaging with groups, such as second adults within couple, of which it has little knowledge. At the same time, our experience shows that Jobcentre Plus is failing to deliver its current service adequately (see p26). Even if an employment rate of 80% is attained, this infers that one in five working adults will remain outside the labour market and, since many of these adults (perhaps as disabled adults or lone parents) are likely to live in households without any other adult being in work, the target implies that many adults and children will remain in households where no adult is in work. Alongside consideration of the employment rate, therefore, we ought to have a more detailed examination of the safety net—currently three-quarters of children in households in which no adults work are poor.

** Poverty line is projected forward from 2004–05.

ENSURE THE SAFETY NET PROTECTS FAMILIES AGAINST POVERTY

Despite substantial recent increases to benefits for children, the package of financial support for families remains inadequate to protect against poverty and social exclusion. This is most starkly demonstrated by the total value of benefits and tax credit entitlements—very often less than the poverty line. The table below shows the poverty line for both couples and lone parents, each with two children aged 5 and 11, their maximum assistance entitlement (including child benefit) and the difference between the two. As can be seen, a couple family with two children are £101 a week, and a lone-parent family £42 a week, below the official poverty line.

<table>
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<tr>
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<th>Assistance benefits maximum entitlement</th>
<th>After housing cost poverty line the poverty line and (£ April 2006)**</th>
<th>Difference between entitlement*</th>
</tr>
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<tbody>
<tr>
<td>Couple</td>
<td>£198</td>
<td>£299</td>
<td>£101</td>
</tr>
<tr>
<td>Lone parent</td>
<td>£165</td>
<td>£207</td>
<td>£42</td>
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</tbody>
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* Assistance benefits entitlement is the sum of income support, child tax credit and child benefit.

** Poverty line is projected forward from 2004–05.
Although we have an official poverty line (60% of contemporary median income), the method whereby it is derived is arbitrary and not related to what constitutes an adequate income. No official assessment has been undertaken of the levels of benefit income that would constitute “adequacy”. CPAG believes that more research and a clearer analysis are needed to establish what families need to live on, and this should be used as the basis for setting and for reviewing benefit rates. Effective uprating policies are also needed to ensure that financial support holds its value, relative to societal living standards. Lisa Harker also pointed out in her recent report for the DWP the link between the decline in the relative value of adult benefits and child poverty, and recommended that the DWP should review its benefit uprating policy (Recommendation 26).

**INCREASE THE VALUE OF ADULT PAYMENTS WITHIN INCOME SUPPORT IN LINE WITH THOSE FOR CHILDREN**

The failure to uprate benefits in line with societal living standards—but instead with (lower) price inflation—has resulted in adult payments in income support losing their relative value against both average earnings and the poverty of childless adults who may, in due course, become parents, income support needs to be raised and its uprating then needs to be on a par with benefits for children.

This is important for child poverty in a number of critical ways.

- It is impossible to ring-fence spending on particular family members any consideration of child poverty has to consider the adult rates.
- The adult rates in income support are higher than the child rates in child tax credit, so the proportionate gain to the family by apparently large child gains is much lower than it appears; increases in the child element are absorbed by slower growing family incomes.
- The health of adults with caring or financial responsibility for children is critical, but it is also important for prospective mothers both before and during pregnancy. This group, often young and subject to particularly low benefit rates, is extremely vulnerable to income poverty, which has a detrimental effect on both mother and child. CPAG believes that the Government needs to look urgently at the issue of young prospective mothers on income support. One possible policy option is to pay a “pregnancy premium”, though we recognise that this would not help reach prospective mothers until they have both recognised the pregnancy and made a claim. Alternatively, increase the overall rate of income support for younger people. Either of these would have a positive impact.

The value of the adult payments in income support has diminished since 1988, and continued unchecked by the election of New Labour in 1997. If income support had remained the same proportion of average earnings in 2005 as it was when first introduced in 1988, couples would receive £33.51 more a week than they do now and single people aged over 25 would receive £22.69 more. Income support has continued to wane in relation to the living standards of society because it is uprated by the Rossi Index (that is the Retail Prices Index (RPI) without housing costs), which tends to grow more slowly than the RPI.

The problem of adult benefits losing value is not restricted to childless adults, since the basis of the benefit to provide for adults living in families with children is the same. Although adults in these families receive additional child elements which have, in recent times, risen in value more rapidly, the effect on the total sum of combining both adult benefits (which have been falling in value as a proportion of wages) and the smaller child elements (which have been growing as a proportion of average earnings) dampens the overall family income increase considerably.

Child poverty cannot be tackled without a broader focus on family poverty: to address family poverty and the poverty of childless adults who may, in due course, become parents, income support needs to be raised and its uprating then needs to be on a par with benefits for children.

**UPRATE CHILD BENEFIT AND CHILD TAX CREDIT IN LINE WITH THE FASTEST GROWING OF EITHER PRICES OR EARNINGS**

It is welcome that the per child element of the child tax credit is currently being increased in line with earnings inflation, but, as with income support, other elements of tax credits and child benefit are falling in value against wages. If child benefit had held the same value as a percentage of (rising) average earnings as in 1979 (around 5.2%), in April 2006 children would have been getting around £22.85 per week, £5.40 more than first children received, and double what second and subsequent children got.

Worse still, despite the understandable wish to concentrate resources on the poorest families through the child element of child tax credit, failure to uprate the family element of child tax credit in April 2005 and April 2006 continues to undermine its long-term future—both in terms of its coverage and generosity—and has provided a dangerous hostage to fortune. A future government, less disposed than the current to directing resources toward poorer families, would face no legislative barrier if it were to freeze entitlements to the child element of child tax credit and, indeed, could call on related precedent to justify a real terms cut.

CPAG believes that the current position is unsatisfactory and calls upon the Government to re-examine its position on the future uprating of benefits and tax credits. If social inclusion is to be maximised—as it should be—we will need not only to have a better understanding of what it costs families to obtain a decent standard of living, but also to ensure that change over time in the value of financial support is set in relation to the faster growing of prices or earnings inflation.
MAXIMISE THE CONTRIBUTION OF CHILD BENEFIT WITHIN FAMILY SUPPORT

Within the package of financial support to families with children, the balance between money provided through the twin foundations of child benefit and means-tested child tax credit needs to be right. CPAG recognises that focusing maximum resources through the means-tested tax credit is driven by the desire to maximise the impact of limited resources. Still, it is important to point out that universal child benefit retains a critical role in protecting all children from poverty.

As part of the Make Child Benefit Count campaign, CPAG has been calling for the subsequent rate of child benefit for second children to be raised to the first. This would increase the role of child benefit, rebalancing the twin foundations of financial support for children, and has been modelled to lift between 250,000 and 300,000 children out of poverty.

To rely too heavily on means-tested policy may be a tactical error for a number of reasons laid out in Child Benefit: fit for the future, which points out the following:

Simplicity

Child benefit is easy to claim and only has to be claimed once for each child, the qualifying rules are simple, and its amount and structure do not change as children get older. Its “costs of compliance” are, therefore, low for claimants. It does not distinguish between lone parents and couples, married or unmarried parents, or those in or out of paid employment. In 2004–05, only 1.05 pence in the pound was spent on administration costs, compared with some 3 pence in the pound spent on managing and paying child tax credit. At a time when the Government is actively investigating the possibilities of simplifying the benefits system, child benefit could be seen as a model.

Take-up

Child benefit has almost universal take-up, with the Government estimating this recently at 98%. The Government has made strenuous efforts to boost the take-up of means-tested child tax credit by removing some of the stigma of claiming, but has still not managed to raise the take-up to the same level as universal child benefit.

A ladder out of poverty

Child benefit helps provide a ladder out of poverty because it is not reduced when other income goes up. It does not contribute to the unemployment trap—the situation in which people may be little or no better off in work than out—because it is paid at the same level whether a family has a parent in employment or not. This is not the case with child tax credit. Tax credits still contribute to the poverty trap—the situation in which people may be little or no better off earning additional income—because they are reduced (along with means-tested benefits, such as housing benefit and council tax benefit) when other family income increases when a family has a parent already in employment.

Family fluidity

Child benefit is paid to the main carer in couples regardless of the resources of the partner. Consequently, it “follows the child” through changes in the family unit without being reassessed. This makes it a thoroughly modern benefit—and is different from child tax credit, for which a new claim must be made with any change in partnership status.

Administrative problems

Child benefit is not subject to the same sort of administrative problems that have plagued tax credits. Families need a constant income despite changes in circumstances, such as at the point of relationship breakdown. Child benefit is more likely to provide seamless support than complex, means-tested tax credits which need to be regularly reassessed—thereby generating additional paperwork and possibly delays at times when families are under considerable stress.

Sustainability

Child benefit is well recognised and popular. It has a political ability to “stick”, and though it lost significant value over the 1980s and 1990s it remains a well regarded, well functioning benefit around which an effective political campaign for improvements in the living standards of children can be built. Because it goes to all families and is not incometested it represents a social contribution to the additional costs of children, and their benefit to society. Furthermore, income-tested credits presuppose that deep divisions will continue in our society. A universal benefit—like child benefit—that assumes a world free of child poverty is the most suitable and sustainable way to eradicate child poverty.
Cost

The central argument against child benefit is its cost. However, while it is certainly expensive, it is not necessarily true that taxpayers would not pay for the increase. It is very possible that the pressures on the Government to resist additional taxation are actually greatest when benefits and tax credits are provided only to a small—and poor—group with limited political influence. Spending is politically easier to justify when a larger proportion of taxpayers benefit directly from it. CPAG believes that, because of its universality, there is a clear and compelling argument to maximise the role of child benefit within the balance of financial support to children and families.

Introduce Free at the Point of Delivery Good-quality Childcare

Two key advantages are attributable to good childcare: the ability of parents to work and developmental gains for the child. Both are critical to improving life chances for the poorest children. There is growing recognition of the centrality of childcare to government objectives, culminating in the Treasury publishing, in December 2004, a 10-year childcare strategy. The strategy not only underlies the importance of childcare to government objectives, but details welcome changes to address some of the manifest problems with current provision.

Current provision is primarily market-based with a government demand-side subsidy provided through working tax credit, and with supply-side intervention through nursery places for three- and four-year-olds. Sure Start children’s centres and out-of-hours school-based provision. The December 2004 Pre-Budget Report extended each of these (dates of implementation vary by reform): increasing the proportion of childcare costs claimable (from 70 to 80%) and the childcare maximums; increasing the extent of free nursery entitlement for three- and four-year-olds; introducing children’s centres in each community by 2010. CPAG welcomes these reforms and the Government’s acknowledgement that this is an area where policy has not gone far enough. Good as it is, more is needed to tackle the inadequacy of childcare, and we still lack the commitment to universal, free at the point of delivery childcare required to support fully the eradication of child poverty.

The problem with current policy is that it falls down before two hurdles: excessive expense and inadequate supply. Both factors bear most heavily on the poorest. The typical cost (2006 prices) of a full-time nursery place for a child under two in England is £142 a week. In some parts of the country, particularly London and the South East, the cost of a nursery place is even higher—normally £197 a week in Inner London. The typical cost of a full-time place with a childminder for a child under two is £132 a week, and nannies cost anything from £250 to £500 a week, depending on whether they live in or out. Although the Government provides help with the cost of childcare for low-income families through working tax credit, the current average award is just £49.80 a week, and there is no extra help for parents with three or more children.

As for supply, there is only one registered childcare place for every four children under the age of eight. Moreover, there is an inverse relationship between childcare availability and area deprivation. Deprived wards have about half the national average number of childcare places. High turnover is another problem in the provision of paid-for childcare. According to a recent Public Accounts Committee inquiry into early years provision, of 626,000 new full-time places, 48.1% have already closed down. High turnover is likely to be greatest in poorer areas where profits may be relatively low and demand suppressed by parents’ inability to afford provision. Quality is likely to be impaired by high turnover of staff and projects, and again this is likely to disadvantage the poorer areas disproportionately.

CPAG recognises that providing a sustainable universal childcare service is a complex undertaking. In addition to issues of principle, there are workplace issues around the number of child carers, and the training and remuneration they receive. These workplace issues, in part being addressed as part of ongoing policy reform, are critical to creating a service that is not only of good quality—sufficient to maximise child development—but is also sustainable. Still, we believe that greater urgency needs to be placed on rolling out children’s centres as a vehicle for childcare (and other services). In the short term, sustainable ways must be sought of making more childcare available in deprived areas, as well as ensuring a greater variety of provision to match need. The long-term ambition should be universal childcare, free at the point of delivery, and the immediate priority is to establish an action plan with steps to get there, starting now.

Make the Reduction of Child Poverty Central to the New Child Support Policies

Child poverty cannot be tackled without effective child support policies. Following the reporting of Sir David Henshaw’s review into child support, CPAG raised a number of concerns. Although appreciative of the central role given to child poverty reduction around reform options, we argued that for child support effectively to assist the reduction of child poverty, the following principles should be reflected within reform.

— Deliver adequate and stable maintenance, even if it is difficult to enforce collection.
— Consider the needs and ability to pay of second families—reform should not reduce poverty for one group of children by increasing it among another group of children.
— Minimise conflict between parents—conflict is acknowledged to be highly damaging for children’s well-being.
CPAG further argued that the child maintenance premium should be extended to those in receipt of benefits (not just the new scheme cases) and that all maintenance should be disregarded when assessing entitlement to income support, as it is for child tax credit.

We also emphasised the importance of effective advice provision in delivering child support. While CPAG welcomes the importance given to the third sector within the Henshaw review, we believe that there is a lack of capacity to provide this advice and there is a need to build independent capacity.

Our initial evidence to the review further emphasised the often unrecognised poverty in second families. Serious thought needs to be given to the use of an advance payment, or “guaranteed maintenance”, system for child support as an important mechanism to protect the financial security of vulnerable children. We are concerned that this has been rejected, particularly in a document that argues that child poverty should be placed at the centre of the proposals.

Finally, CPAG’s initial letter to Sir David Henshaw concluded by noting that, in our experience, services to poor people usually become poor services. We believe that an agency with a small number of families on its books, who may be poor and have complex needs, risks becoming a poor-quality service in the long run. We urge the Government to place high-quality service provision at the forefront of policy makers’ thinking in designing the delivery and management of any new agency.

THE USE OF PRIVATE ARRANGEMENTS

Though CPAG agrees that it is important to facilitate the choice to make or maintain private maintenance arrangements, we are concerned that this may embed an imbalanced power relationship between ex-partners. One partner may settle for less than children have a right to expect in order to maintain a harmonious relationship with the other partner. In terms of making sure that private arrangements “stick”, both in terms of the level at which maintenance would be paid and also in the frequency and regularity of the payment, we see a need for some official recording of the arrangement. This has both a symbolic and practical importance. In symbolic terms, it demonstrates that an arrangement has been reached and sets out the terms; in practice, it is likely to encourage greater compliance by non-resident parents and offers a speedier route to enforcement if non-payment occurs. Though a register does potentially draw the state into an involvement with a “private” arrangement, where this has broken down, CPAG believes this to be in the child’s best interest.

THE MAINTENANCE DISREGARD

Perhaps the clearest anti-poverty component within the Henshaw report is the proposal to increase the size of the disregard. To increase the disregard, or to disregard all child support maintenance for the purposes of benefit assessment (this is already the case for tax credits), would have a direct impact on poverty. It would increase some loneparent families’ income above the poverty line and reduce the depth of poverty of others, and support both paid work and tax credits in tackling child poverty.

We understand that the Government has not reached a settled view as to the size of the disregard, and that concerns exist over possible work disincentive effects (if out-of-work income were higher than in-work income). Henshaw rejected the argument that a higher disregard acts as a disincentive, in part on the basis of the empirical evidence of the Wisconsin child support programme, which found that both full and partial disregards had no impact on employment. Given that an unstable income currently acts as a barrier to work, we believe that a higher disregard would actually increase the likelihood of parents with care going into or sustaining paid work. Far from acting as a disincentive, a higher disregard could, therefore, combine the double benefit of reducing poverty and supporting employment.

ENFORCEMENT

Much of the recent discussion around the reform of child support policy has emphasised the need to ensure effective enforcement. CPAG agrees with this and would like to see the Agency, and whatever body replaces it, use existing powers more effectively to pursue those refusing to pay financial support on behalf of their children. Alongside strengthening current enforcement, we urge the Government to couch messages and publicity in terms of helping ensure non-residents can provide adequately for their children, not in terms of tackling feckless parents shirking their responsibilities. To stigmatise fathers as “deadbeat dads” not only fails to appreciate that most want the best for their children but risks creating a backlash of future non-compliance.

MAKE EDUCATION TRULY FREE AT THE POINT OF DELIVERY

Education should be free at the point of delivery. Too often it is not. A Department for Education and Skills (DfES) survey published in 2004 investigated the costs associated with schooling, including trips and activities; contributions to school funds; meals; and travel. Overall, the researchers found that £736.22 was spent per child. Although the poorest households spent somewhat less in cash terms than the richest, this is actually a bigger share of their income. Moreover, the poorest households are those most likely to report...
difficulty in meeting these costs. The increasingly common use of private tuition by richer parents, along with poorer parents’ difficulty in meeting educational costs, will inevitably widen the educational achievement gap between their children.

Spending levels are key for two reasons: first, spending may open up new opportunities for children (for example, trips and activities) and so if income precludes spending, affected children will be denied the experiences open to many of their peers. Second, parents make sacrifices themselves to give the maximum opportunities to their children, so spending on schooling may be at the expense of other necessary outgoings. For both reasons, CPAG would like to see action to ensure all children have equal access and to ease the burden on family budgets.

SCHOOL MEALS

Though school meals are available to some (linked to receipt of other benefits) they are poorly taken up. All too often the existing system openly identifies those in receipt of free school meals, resulting in stigma and low take-up. A recent CPAG publication, Recipe for Change, profiled good practice in this area (for example, cashless systems using swipe cards), arguing for improved current practice on the route to universal free school meals. As the take-up of free school meals is low, the provision of universal free school meals would ensure full take-up and protect families who are relatively poor but not entitled to claim free school meals. In 2003–04 in the UK 16.5% of children were entitled to free school meals, a figure that falls well short of the 28% of children income poor in Great Britain the same year, demonstrating how restricted entitlement is.

SCHOOL CLOTHING

Clothing for school costs money, more for older children, and this need is focused around very specific transition points in their development—growth spurts and changes of school. School uniforms can have a protective effect if it means that no child stands out because parents have not been able to spend as much on their clothing as their peers. This is dependent, however, on adequate clothing grants to help to prevent childhood stigma. A recent report from Citizens Advice suggested that the costs of uniforms for the start of secondary school could amount to over £200 and demonstrated an extremely patchy picture of local education authority (LEA) support for parents in meeting the cost. It showed that two out of five LEAs provided no help at all with school clothing, a situation that has worsened significantly since 2001.

TRIPS AND ACTIVITIES

School activities, including trips and hobbies, are a vital element of childhood learning and experience, but charges often apply. Although official guidance discourages charging for activities occurring in school time, schools may ask for “voluntary” contributions for certain activities, and can charge for activities associated with school which fall outside the school day. Charges or “voluntary” contributions confront parents and children with an odious choice: preventing a child from participating in an activity, or paying for them to do so out of an already stretched budget. Both work against effective anti-poverty policy.

EXTENDED SCHOOLS

As the DfES acknowledges in its guidance to help schools plan and fund their extended schools, such schools offer particular benefits for the most disadvantaged children and young people, such as study support activities, after-school and holiday activities, childcare, parenting support and referral to wider support services. All schools are expected to offer some free study support and some free after-school sport activities but schools may (after local consultation) fund other study support activities by charging parents.

While schools may use their delegated budget to fund access to study support activities for the children and young people in low-income families (and to support access to educational activities which are normally included as part of the childcare offer), this will undoubtedly differ from school to school. And, like free school meals, it runs the risk of openly identifying those children in low-income families, resulting in stigma and low take-up. Many will, therefore, be denied the educational benefits of these study support activities.

CPAG is concerned over the policy presumption in extended schools—notwithstanding the benefits they offer to the most disadvantaged children—that parents have less and less time to parent and children require more and more state care. We do not believe that this is what most parents want; instead they want a better worklife balance. The way to resolve the problems that have a particular impact on children from poorer families is firstly to consider the appropriateness of costly trips or uniform (such as uniform badges or uniforms with only one supplier) and, where such services are necessary, either to provide adequate grants or to provide such services universally, free at the point of delivery with a test of educational need, not ability to pay.
PROVIDE BENEFIT ENTITLEMENT TO ALL UK RESIDENTS EQUALLY, IRRESPECTIVE OF IMMIGRATION STATUS

Benefits and tax credits must be provided on the basis of need. As need does not vary by immigration status, neither should entitlement. Managing migration is the proper preserve of the Home Office, but the mechanisms by which this is achieved ought to operate entirely independently of the benefit and tax credit system. Failure to implement such a system is not only counter-productive, but violates natural justice and constitutes a poor welcome to those who have arrived in this country and may well stay.

Those seeking asylum receive a lower entitlement to financial assistance than British citizens, receiving 70% of the adult payments in income support, plus full entitlements to the child elements (but since the child elements are a smaller element of the family’s total entitlement, the effect—reducing total entitlement—is a marked one). Parents seeking asylum are also prohibited from working until their asylum application is resolved—there is no option here for work as the route out of poverty.

The treatment of children in families subject to immigration control, and particularly those who are seeking asylum, is in stark contrast to the considerable support directed towards children in the UK. Those immigrant groups are numerically small, but face a high risk of poverty—and yet it is a group on which no official poverty statistics are produced.

The key step to reducing the additional risk of poverty faced by children of parents subject to immigration control is to provide them with the same rights to social security and tax credits as are received by British citizens. Providing entitlements through the benefit and tax credit systems, provided by the HMRC and the DWP, is the route to achieving this aim. This would demonstrate that the paramount concern for children is the level of their families’ income, not their immigration status. Furthermore, for this group to be brought in line with the population as a whole, the restriction on paid work should be removed, giving these families the same route out of poverty as the rest of the population.

REDUCE THE DISPROPORTIONATE BURDEN OF TAXATION ON POORER FAMILIES

The very poorest households pay a higher proportion of their income in taxes than the richest households. This is because indirect taxes on goods—unlike income tax and national insurance—tend not to be based on ability to pay. About one-third of the poorest tenth of households with children are taxed this way by the state, more than cancelling out the progressive nature of income tax. It is not just indirect tax that is regressive: council tax costs proportionately more to the poor than to the rich. Even after council tax benefit—which rebates the cost of those eligible and who claim it—the poorest tenth paid an average of 3.8% of their gross incomes on council tax; the richest tenth paid 1.4%.62

Valued added tax (VAT) constitutes the largest element of the tax paid by the poorest households. VAT costs the poorest households with children about 12.7% of their gross income, whereas it only costs the richest about 4.4%. The next largest element paid by the poorest families is taxation levied on tobacco63 and then on petrol. For richer households, the taxes that stand out are the direct taxes on income and national insurance contributions. The “intermediate taxes”—those paid elsewhere such as employers’ national insurance contributions but which are likely to have been offset against an individual’s income—also have an overall regressive effect. Tax relief is very unlikely to have as progressive impact as benefit or tax credit spending since it is of greatest benefit to those with the highest taxable income.

Some taxes, though regressive, are designed to influence consumption behaviour rather than raise money—the so-called “sin taxes” on tobacco and alcohol or possible “green taxes” on fuel. Whereas policy makers might not wish to change such taxes, the overall balance is wrong. Reform is needed to make the burden of taxation proportional. For example, the reliance on regressive taxes—council tax, VAT and others—could be reformed and reduced, or the gradient within existing proportional taxes (income tax and national insurance) could be sharpened. The possibility of some kind of local income tax, which would be proportional to ability to pay to replace council tax, also warrants serious attention to ensure that council tax does not work against anti-poverty policies. Many of the poorest families will, however, continue to pay proportionately more since they have to spend all of their incomes (and so are taxed upon the spending).

Addressing the tax burden is complicated, but vital to ensure we have a truly progressive taxation system that does not undermine anti-poverty policy and does not fly in the face of overwhelming public opinion—three-quarters of people in a British Social Attitudes survey believe that taxes should be proportional to the ability to pay. Greater redistribution through benefits and tax credits is required to offset the regressive effect of tax on the poorest people.

IMPROVE THE QUALITY OF DELIVERY AND GEAR IT TO THE NEEDS OF THE POOREST FAMILIES

To support the policy developments called for elsewhere in this paper we feel that greater attention also needs to be given to the mechanics of how policy is implemented. Alongside pre-existing delivery problems (for instance in the Child Support Agency), the staffing cuts following the review under Sir Peter Gershon have reduced the numbers in both HMRC and the DWP. The pre-announced settlement of 5% real budget cut over the period of the next spending review also marks the territory as one where the Government expects to reduce the amount it is spending on administration.

Ev 88 Treasury Committee: Evidence
At the same time, significant delivery problems have been occurring in Jobcentre Plus, the tax credit system and the Child Support Agency. Alongside the existing problems, the DWP faces significant challenges in delivering the current operational improvement plan in the Child Support Agency and reorganising it, along with rolling out the Pathways to Work extensions proposed as part of the welfare reform legislation currently before Parliament.

Existing administrative challenges are great and where poorer families do not receive effective, appropriate services this directly undermines attempts to reduce child poverty. Examples of current problems are not hard to find—for instance, delivery of child support policy has been widely criticised, not least by the Secretary of State ultimately responsible for it.

The overall performance of the CSA has fallen well short of expectations . . . Only a minority of cases handled by the CSA receive any maintenance. There is a backlog of around 300,000 cases. Debts of over £3 billion have built up with limited prospects of recovery. There is a net cost to the taxpayer of around £200 million per year. And levels of customer service, although they have improved recently, have never reached the standards of quality and consistency the public are entitled to expect.

Significant problems—both policy and administration—with the delivery of the tax credit system have compromised its impact, with the harsh recovery of overpayments and often impenetrable administrative systems for reporting changes of circumstances. Major policy and administrative reforms were announced in May and December 2005, which are welcome and will have a significant impact in reducing poverty in the medium and longer term. However, these changes are not yet fully implemented, and the IT support for the scheme appears inflexible to policy and delivery need—demonstrated by the length of time required to implement the December 2005 changes (still underway in late 2006). Above and beyond these, much more work is needed to ensure forms are comprehensible, the administrative process is better understood by claimants, and access to information and advice is improved.

Recent reforms in Jobcentre Plus have shifted delivery from being based primarily on local offices to a network of contact and processing centres, underpinned by the IT Customer Management System. The introduction of the new model was heavily criticised by the Parliamentary Work and Pensions Committee in March 2006: We conclude that the service delivered by many Jobcentre Plus Contact Centres to their customers suffered a catastrophic failure in the summer of 2005. This led to additional hardship among the most vulnerable in society.

In its response, the Government rejected the extent of this criticism, although it did accept there had been many problems. These may have been most acute while the system was in transition in summer 2005, but a more recent CPAG survey of advice agencies dealing with Jobcentre Plus shows continuing evidence of extreme difficulties in getting through, of advisers not being informed of service changes, and of lost paperwork and official error.

The DWP has announced it will poverty-proof new policy. CPAG believes this should extend both to policy and to administrative mechanisms of delivery. These should, therefore, be developed to cater effectively for the most disadvantaged claimants, rather than being driven primarily either by the desire to save resources or to deliver for the “average” claimant.

**NON-TAKE-UP**

Non-take-up of many benefits and credits—including income support, child tax credit, working tax credit and disability living allowance—is common, with around £8 billion going unclaimed in means-tested benefits and a further £5 billion in tax credits. The principle reasons for non-take-up of benefits are structural and administrative; they are about the complexity of understanding entitlement criteria, dealing with forms and processes, the hassle of dealing with benefits administration, and about the—often stigmatising—ways in which claimants—and “benefits dependency” are described. As the causes and solutions are structural, the ultimate responsibility for failing to deliver rights lies with official agencies.

Government—including through the DWP’s benefit simplification unit—needs to work to simplify the experience of claiming benefits in order to make it easier for people to take up entitlements and to challenge wrong decisions. It should also be more careful about the way in which benefits and claimants are described, including in its messages on Improve the quality of delivery and gear it to the needs of the poorest families. Encouraging public prejudice discourages take-up and thereby worsens poverty. The public service agreement to deliver pension credit to three million households by 2006, and its successor target, are a welcome acceptance that the state has the responsibility to deliver rights—and not just that individuals have an entitlement to claim. There is a greater potential for both more exploration of the barriers to take-up and the use of targets to help drive policy to increase the proportion receiving their entitlements.
Error, Delays and Poor Decision Making

Errors and delays are a clear indicator of system complexity and system failure to work effectively. Error shows up both in departmental estimates and in the successful appeals against decisions—if initial decision making was good, the rate of claimants overturning decisions at tribunal would be low, yet for income support nearly half of cases (44.8%) are overturned and awarded at appeal. For disability living allowance, this is 55.2%, for incapacity benefit (for cases going through the personal capability assessment), this is nearly two in three (57.2%). Delays in making decisions or processing paperwork also place families at great risk and are shown through the use of other provision (including private debt, the social fund and charities).

Social fund crisis loans made to cover “alignment periods”, gaps between first payments of benefits or wages, take up 37% of social fund expenditure. As well as evidence of poor service in itself, using loans in this way reduces the amount the social fund has to spend on the poorest families and shows the extent to which the social fund picks up the pieces of delays from other parts of the system.

Though fraud usually hits the headlines, error is far more substantial in cash value terms. For income support, jobseeker’s allowance and pension credit in 2004–05, 1.9% of resources were overpaid as a result of fraud, and 3.3% because of error (1.3% claimant error and 2% official error). In 0.4% of cases, claimants got less than their entitlement as a result of their own error, while more than double this proportion got less because of official error. Analysis of recent trends for income support and jobseeker’s allowance shows that fraud has reduced by 57% since September 1998, official error reduced by much less than this (33%) and claimant error actually increased by 38%. Data from the first year of the operation of the tax credit system shows the occurrence of error (not separated into official or claimant) massively outweighing fraud, with 1,130,000 estimated cases of error (“favouring the claimant”), compared with just 30,000 cases of fraud.

Using data from the first year of operation of the scheme does not account for the subsequent improvements noted earlier, nor does it account for the impact of the systemic fraud attack which resulted in HMRC closing the online claim facility (the “e-portal”) in late 2005, rather it reinforces the point that much greater emphasis should be placed on reducing error rates. In terms of the DWP experience, though, clearly the Government has an interest in fraud reduction; this is already falling in line with official targets.

What is not falling at the same rate is error. Reducing error and delays should be a key focus, and this can be achieved both by simplifying systems, where appropriate, and by improving the ability of staff to cope (by IT improvement, better training and addressing work pressures) where processes are inherently complex to meet complex need. CPAG has argued elsewhere that the importance here is the felt experience by claimants and the strength of backroom processes. Likewise, delays in decision making or processing, which often result in the use of crisis loans, show up in one part of the system having to deal with the problems of another—speedier decision making in these cases would reduce hardship for families caught between systems.

Accessibility

Both HMRC and the DWP rely heavily on telephone-based systems for initiating claims and reporting changes of circumstances. Though clearly this route of communication may suit the needs of many claimants, it does not and cannot work for all claimants. CPAG has particular concerns about the poorest claimants, who have often the most complex needs, and for whom telephone-based services may not be the most accessible, either because of cost (if calling from mobile telephone), language (where either English is not the first language spoken or literacy is poor), numeracy (especially important in understanding tax credits) or confidence. For these groups, we believe that readily available face-to-face access to HMRC and Jobcentre Plus services remains an extremely important (often unmet) need. Since face-to-face information is a need for many of the poorest and most vulnerable families, gearing the system to meet their needs first and foremost means providing face-to-face access through home visits or local offices alongside good-quality helpline-based services.

Independent Advice

Independent advisers are crucial to provide information and advice on the maze of entitlements, enabling families to access their entitlements and advocating on their behalf. Yet despite the Government acknowledging the sector’s value, there is a dearth of advice on some key areas, such as child support, and financial pressure in others, while different government agendas seek to influence voluntary sector organisations in conflicting ways.

The DWP is clearly aware of the value of the voluntary sector and is looking to private and voluntary contractors to deliver Pathways to Work and to be more involved in child support policy. CPAG understands the governmental need to develop capacity quickly, but we do not believe Improve the quality of delivery and gear it to the needs of the poorest families the voluntary sector exists to deliver state services, and for it to do so risks perverting its ability to advocate on behalf of claimants. CPAG is especially worried about the possible impact—on claimants and on the sector—of the powers being proposed to allow decision making and ultimately sanctioning by the private and voluntary sector providers of Pathways to Work.
At the same time as the DWP is looking to the voluntary sector to help with delivery, the Department for Constitutional Affairs (which holds the legal aid budget) is seeking to concentrate civil legal aid funding in ways which concentrate on specific local centres (community legal and advice centres) and networks (community legal advice networks). This risks excluding smaller under-funded community groups which would result in less diversity of provision, exacerbating problems of access and hindering the desired plan to target groups that often do not access current services. CPAG is concerned that this model may also develop to exclude solicitors from being part of the Community Legal Service, thereby reducing access to justice where a client’s problem can only be progressed through a solicitor. The growing use of discretion in the fields of welfare benefits and tax credits where legal challenges can only be made via a judicial review increase the need for access to solicitors.

At the same time, the plan for the Community Legal Service has overlooked the strong need for the second-tier provision to support the front-line sector in giving high-quality advice. To protect and develop independent advice provision so that advisers can fully play their role in helping individuals take up entitlements and reducing poverty, there needs to be a clearer acceptance from the Government that the independence (from government) of the sector is important and a more joined-up and strategic approach to developing funding streams to support (including second-tier) advice.

Notes
1 E Balls MP, written ministerial statement on the Children and Young People review, July 2006.
5 See note 2.
6 Institute for Fiscal Studies, Poverty and Inequality in Britain: 2006, 2006.
7 See note 6.
8 See note 6.
11 G Preston (ed), At Greatest Risk: the children most likely to be poor, CPAG, 2005.
14 Using the poverty threshold of 60% of median income after housing costs. See J Bradshaw, N Finch, E Mayhew, V M Ritakallio and C Skinner, Child Poverty in Large Families, Joseph Rowntree Foundation, 2006.
15 See note 14.
16 Cabinet Office, Prime Minister’s Strategy Unit, Improving the Life Chances of Disabled People, 2005 (a joint report with the Department for Work and Pensions, Department of Health, Department for Education and Skills, and Office of the Deputy Prime Minister).
21 See note 2.


31 See note 28, p7.


36 See note 35.

37 A £40 top-up to wages, targeted at those lone parents moving from benefits into work (over 16 hours) and available for 12 months. At the moment this is available only in parts of the country.

38 These have sought to invest time supporting and training people in specific areas of work to encourage longer-term sustainable employment.

39 See note 2.

40 See note 2.


42 See note 2.

43 Albeit one in the process of being changed.

44 See note 35.


47 The 2 December 2004 and 5 December 2005 Pre-Budget Reports and associated documents confirm an earnings rise for the child element of child tax credit but a freeze for the family element.

48 See www.makechildbenefitcount.org


50 See note 46.

51 Take-up of working families’ tax credit was 62–65% in the first full year, 2000–01, and reached 72–76% in its last year of operation, 2003–03. HM Revenue and Customs, *Child Tax Credit and Working Tax Credit: take-up rates 2003–04*, 2006.


54 See note 52.


59 See note 2.

Memorandum submitted by England’s Regional Development Agencies (RDA’s)

1. INTRODUCTION AND EXECUTIVE SUMMARY

1.1 England’s Regional Development Agencies (“RDAs”) are pleased to further contribute to this ongoing inquiry into the Comprehensive Spending Review (“CSR”) 2007. In particular, the Regional Development Agencies would like to make some specific observations in this submission on the potential future development and shape of any revisions to Public Sector Agreement (“PSA”) targets arising out of the CSR process, specifically as regards options for improving their traction with the economic development priorities identified in Regional Economic Strategies (RESs) for the different English regions. At present, Government requires the RDAs to gear their activities and investments in support of the delivery of the RESs to contribute to the delivery of certain PSA Targets, and the achievement of specific outputs, defined in a tasking framework (www.dti.gov.uk/files/file26126.pdf).

1.2 The RDAs feel that there is a need during this CSR process to revisit the PSA targetry framework agreed upon in 2004, particularly in terms of its impact on cross-agency work at the regional and subregional level. The current range and specificity of existing PSAs means Departments and agencies can often work against collaboration within regions, exacerbated by the fact that the absence of clear objectives for each region may mean that Departments and their respective executive agencies in the regions place greater emphasis on satisfying national PSAs than on addressing the economic needs of the regions, as defined in particular in RESs.
1.3 The current Tasking Framework only applies to RDAs and does not bind other bodies with a significant economic role in the regions, including LSCs, to contribute to the delivery of RESs. In addition, the Framework requires RDAs to deliver outputs that may not relate directly to the outcomes targeted by the Economic Strategies for the regions.

1.4 With regards to the London Development Agency, in response to the Government’s consultation paper on the powers and responsibilities of the Mayor and Assembly, the Mayor of London stated that there was a need to review the operation of the tasking framework and how it relates to targets set for the LDA. The aim should be that any reporting framework for the LDA fully reflects London’s unique governance arrangements, so that it provides greater flexibility for the LDA to focus on London’s specific needs and economic circumstances in applying its resources, whilst continuing to take appropriate account of relevant national priorities. Discussions are underway with Government to take this issue forward separately for London, although the principle of “regionalising the tasking framework” across the board is strongly supported by the whole RDA network.

1.5 The RDAs believe that without reform of some description, the current PSA framework will neither truly satisfy the requirement of Government to proactively promote cross departmental and agency alignment into the next spending period, nor enable and advocate the levels of efficiency saving currently being pursued by HM Treasury.

2. Regional Development Agencies

2.1 In 1999, the eight Regional Development Agencies were established under the Regional Development Agency Act 1998, with direct accountability to the elected Minister of State. For the first time, economic development and regeneration policy was to be developed and co-ordinated strategically at the regional level. The advent of the RDAs consolidated previously separate economic development funding programmes into one single budget, the Single Pot.

2.2 The RDAs were given five statutory purposes:
— to further economic development and regeneration;
— to promote business efficiency, investment and competiveness;
— to promote employment;
— to enhance development and application of skills relevant to employment; and
— to contribute to sustainable development.

2.3 The RDAs’ key concern is to focus on regional priorities in support of improving the economic performance of the English Regions. The Regional Economic Strategies provide the overarching strategic framework for the regions, which ensure the ability to:
— identify and prioritise actions needed to strengthen the regional economies, whilst providing a robust evidence base;
— concentrate resources behind those solutions; and
— mobilise other regional partners and lever in private sector finance to support their solutions.

3. Key Issues

3.1 The RDAs have been tasked by Government with furthering the economic development and regeneration of the English regions. One of the most prominent challenges to achieving this goal across the entire public sector is the need to join up strategic and operational activity within the regions and nationally. Lack of flexibility and/or the requirement to focus on an overly broad range of activity are key barriers to maximising the impact of the public sector’s role and its investment. Similarly, ensuring Government Departments take account of regional priorities in their strategy and policy development remains an ongoing challenge.

3.2 The introduction of the RDA Single Pot in 2002, bringing together six departmental funding streams, provided the RDAs with a new financial flexibility and the ability to focus activity more effectively. With this new flexibility, RDAs have been able to cut across geographic, institutional and departmental boundaries and focus activity when and where it is required, tailoring solutions to their individual regional needs.

3.3 However, RDAs remain constrained to a degree by the requirements of the current PSA framework and its related output targets. At present, the RDAs are responsible for delivering on 14 separate PSA objectives, regardless of their fit with each individual region’s economic priorities, as defined by the RES. Such an approach can both distort and distract from an agency’s ability to deliver and forces RDAs and others to satisfy more often conflicting demands on time and resource within regions. One example to highlight this would be that of the current DfES PSA focus on improving NVQ level 2 skill levels. Though a key issue nationally, individual regions find themselves focusing resources and attention on achieving one level of skills development, when significant and arguably more pressing economic gaps exist in basic skill or higher level provision. The rationale for such conflicts confuses stakeholders and partners, particularly
those in the private sector. There are also important implications of such an approach in terms of efficiency, with lack of clarity and coherence leading to duplication and waste as Departments and their regional arms pursue targets that are not aligned to the RES.

3.4 The above RDA experience appears to be shared across much of the wider public sector at present. The range and specificity of existing PSAs means Departments and agencies often find themselves discouraged from working together within the regions or aligning behind regional objectives, with the requirement to satisfy national PSAs taking precedent at times over the actual needs of the region. One example recently raised is that of public transport, which DfT is rightly tasked by PSAs to run efficiently and in a manner which supports the economy, but who’s PSAs makes no specific mentioning of encouraging employment or local economic development. Such linkages are arguably made over and above the core PSA framework by Departments and public bodies. Though individual PSAs, such as the Regional Economic Performance target, do encourage cross agency activity, they remain in the minority across the entire PSA framework. PSAs on skills, employment and transport, for instance, all tend to focus on addressing national challenges, but ignore many of the fundamental local and regional variations which actually exacerbate such an approach.

4. Future PSA Arrangements

4.1 England’s Regional Development Agencies would ask the Select Committee to consider the potential for a reformation of the existing PSA framework as part of the CSR07, perhaps beyond that currently envisaged.

4.2 CSR 2007 provides a unique opportunity to rethink the current methodology behind the PSA framework and reframe it so that future arrangements encourage and facilitate cross departmental cooperation, national and regional interplay and flexibility to maximise opportunities on the ground. A range of options which could achieve such a set of goals have been summarised below:

4.2.1 Option 1

Approach: The existing Tasking framework could be replaced by arrangements that entailed a single PSA target for each region, which would directly contribute to the Regional Economic Performance (“REP”) target and the other most relevant national PSAs (such as those which dealt with sustainable development or the drivers of productivity). Such a target could in turn then be broken down within regions into five to six regional PSA sub-targets for the region, allocated across local agencies and partners and building upon the RES. Regional PSAs could be either thematic in nature (for instance enterprise or innovation based) or spatial (based on local authority performance).

Advantages: Such a solution would both align partners and activity within regions, reducing many of the existing tensions over national versus regional priorities, as well potentially between the regional and national level. It would allow regions to better prioritise and guide investment and activity to where it would have the most significant impact and improve the transparency of decision making at a sub-national level. There is also much to recommend a solution which improves the direct linkages between regional/local activity and the achievement of Departmental targets, with a clear line of sight from the local to national level.

4.2.2 Option 2

Approach: The existing Tasking framework could be modified to better meet regional requirements. A range of methods could be utilised to achieve this goal, including rationalisation of the number and nature of PSAs affecting regions to a single modified and strengthened REP PSA target, to a set of three to four key PSAs (including the REP, sustainable development and productivity) or even to a wider set of 9 PSAs (three to four headline PSAs and five productivity driven targets around employment, skills, innovation, enterprise and investment). The overall goal would be to streamline the level of targets regions were responsible for within the existing PSA framework, whilst also bringing together multiple departmental PSAs into a regionally shared and coherent framework.

Advantages: The existing framework could be retained, though the requirements upon RDAs to cover multiple targets would be significantly reduced, as would the differentials between Departments and their respective agencies within regions. More flexibility could then be utilised in taking forward activity across the public sector and in working with private and third sector partners.

4.2.3 Option 3

Approach: Retain the PSA framework as it currently stands at a national level, but reducing the requirement on RDAs to cover multiple targets would be significantly reduced, as would the differentials between Departments and their regional arms pursue targets that are not aligned to the RES.
Advantages: A shared set of regional outcome based targets would remove existing tensions between individual agencies over priorities, as well as providing a framework through which local and national partners could work. It would be important, however, to ensure that all departments were signed up to sharing a small number of targets, rather than having 5–10 each for individual regions. It would also be useful to ensure such outcome targets align for activity to be aligned behind the existing regional strategic framework.

5. Conclusion

5.1 As stated above, England’s Regional Development Agencies feel that there is scope for further improving the relationship between national PSA targets and RES objectives as part of the ongoing CSR process. In light of this, we have outlined three potential approaches which could be taken. However, as a group, RDAs would be keen to stress that the approach to a degree is less important than achieving the objective of better alignment. RDAs and their partners seek a solution from CSR07 which reduces the existing constraints on our shared ability to work together coherently and flexibly, whilst also increasing the traction between the activities and decisions of key players in each region in delivering progress towards our shared regional strategic framework.

January 2007

Memorandum submitted by the Association of British Healthcare Industries (ABHI)

BACKGROUND

1. The Treasury Select Committee, in its announcement of 1 December 2006, invited submissions of written evidence in connection with the Committee’s inquiry into the Comprehensive Spending Review. This submission is from the Association of British Healthcare Industries (ABHI), the lead trade association for the medical devices industry, representing several hundred of the companies supplying medical technology products to the NHS. A short note on characteristics of this industry is annexed.

2. In respect of the request posted on the Select Committee’s website, this submission addresses particularly “issues arising from the Government document Long-term opportunities and challenges for the UK: analysis for the 2007 Comprehensive Spending Review published on 27 November” and, especially, questions which arise from the discussion of overarching technological trends and the impact of medical advances.

EXECUTIVE SUMMARY

— The Treasury document identifies trends and impacts arising in the field of health and several of the “technology clusters” which are identified have clear links to the delivery of healthcare.

— However, although new technology was identified by Wanless having a ‘volume’ effect and this is referred to in the Treasury document, there is no sense of any Treasury (or wider Government) strategy to address this nor of the place of technology and innovation in supporting improvements in productivity and patient care.

— This serves to perpetuate an NHS culture in which technology is seen largely as a pressure, rarely to be embraced, although there is clear scope for taking a local, strategic approach to technology which would complement the health technology assessment on which NICE leads.

— The submission examines these issues and notes that a top-down centrally led service has reinforced the sense of technology as troublesome.

— A more local approach to technology strategy is possible and there are some green shoots. The submission concludes that the Treasury should encourage such local approaches.

Technology as a driver of productivity: link to innovation

3. In para 4.23, Increasing rewards from Innovation, the Treasury document comments that “Technology is a key driver of productivity, economic reform and growth”. The document does not discuss productivity itself in a health context. We suggest that consideration of productivity is justified alongside the report’s helpful discussion of trends and likely impacts, on the basis that improvements in productivity enable advances which are as relevant in health as in other areas of human endeavour. Innovation, through development of better products which reduce costs, supports improved productivity. It is an important aspect of continuous improvement, taken for granted in successful companies.

4. This is relevant to healthcare and especially so in the context in which medical advance is discussed in the Treasury’s report (both trends and impacts). The provision of healthcare is clearly affected by the productivity pressures that have swept across all aspects of the economy in the last half-century. A range of developments, such as the availability of test results through to day-case surgery are in themselves improvements in productivity as well as in patient care.
5. However, the level of debate about productivity in the NHS remains at a relatively low level. The current NHS focus is more on comparisons between individual clinician performance: “technology” continues to be used as a general term. This is a deficiency in comparison with other large organisations having their major revenue investment in workforce.

6. Most healthcare is likely to continue to be provided through the NHS, as now, and productivity merits consideration in the wider context of public service productivity. The Treasury recognises that “programmes for more efficient public services . . . also have a direct and significant impact on the productivity of the economy as a whole”54. A recent Treasury document (ref a) discusses the five “drivers” which interact to promote productivity growth, identified as competition, innovation, investment, skills and enterprise. It is arguable that each of them looks more or less relevant to the NHS as a £80bn organisation.

7. In terms of the Treasury document’s discussion of trends and impacts, dealing with innovation is central. The NHS has not, as an organisation, had a consistent, systematic approach to technology or innovation in the way that would be normal in other successful large corporations over the last couple of decades. This may stem partly from the way in which technology is understood.

Technology in the NHS—Wanless report

8. Sir Derek Wanless (ref b) saw technology broadly, as “not just physical equipment, instruments and pharmaceuticals, but also clinical procedures and knowledge and the organisation and support systems within which health care is provided . . . consistent with the World Health Organisation definition of technology.” It is organisation and systems that have mainly been the focus of efforts in the NHS to improve and innovate, with the drive for improved efficiency and especially the reduction of waiting times. However, the potential for the hardware itself to contribute to service transformation and continuous improvement has not had the same emphasis; it is for example taken for granted that day surgery is a norm, but endoscopy took around 20 years to be routinely used in the NHS. It is difficult to see any strategy in the adoption of disruptive technology by the NHS, in comparison with other large businesses’ thirst for technology to secure continuous improvement.

9. Meanwhile the significant investment in the NHS since 2002 has been channelled into labour cost (increased staff numbers and pay rates) and renewal/expansion of the physical infrastructure and asset base. There has been recognition of the need to exploit technology to improve the fundamental architecture and productivity of the system: but the emphasis has been on information technology, through Connecting for Health, rather than on wider medical technology for service improvement. The National Innovation Centre, part of the NHS Institute, may help to balance the emphasis on organisational processes with an emphasis on products, but it does not as yet have direct influence over the performance of individual NHS Trusts and it is arguable that innovation in technology is not comprehensively on the radar at a local level. At that level, “best practice” has more currency than “innovation”, but “best practice” is no guarantee of continuous improvement. In the context of the Treasury’s document, the assessment of impacts and subsequent adoption of technology in health needs a more rigorous approach and a more explicit one.

10. The Wanless report recognised the significance of technology. How does the NHS square up now, with the Wanless reports of 2001 and 2002? The position identified then was of the NHS as “a ‘late’ and ‘slow’ adopter of new technology” (ref a, 10.13). Wanless saw a need to “catch up and keep up” (ref c) to ensure that the NHS overcomes the effects of past technology lags and continues to do so: “over the next 20 years, spending on technology and medical advance will need to grow at a faster rate than in the past to catch up and keep up with other countries, including as envisaged in the National Service Frameworks and to meet increasing patient expectations”.

Technology in healthcare: on track?

11. Has this happened? Looking at the way in which innovation is interpreted in the NHS, as above, at the way in which growth funding has been allocated and at developments in procurement, it is clear that catching up is neither on track nor even incorporated into any overarching strategy. NHS spend has of course increased, but many commentators have noted that new funding has gone into increased wages without any corresponding increase in productivity (ref d) and whilst the real terms increase in NHS spend will have been in the order of 40% over the five years to 2007–08, the rate of increase in spend on medical devices will have been a fraction of this. This definitely does not put the NHS on track for the Wanless “fully engaged” scenario which, considering the level of investment, suggests it has at best been misdirected (eg ref d). As NHS workforce costs have risen, out of kilter with productivity growth, the temptation to cut back on costs of key technology has not been resisted. This means that the NHS is reinforcing the spiral of technology lag which Wanless identified five years ago. Ministers have talked in terms of reducing costs of

54 http://www.archive.official-documents.co.uk/document/cm48/4807/chap05.html
procurement in order to transfer notional savings to the “frontline”. This simplistic approach leaves unasked the question about how the frontline is supposed to operate with respect to technology and makes no link to any strategy which the NHS might be expected to have for continuous improvement.

12. What can be done about this? A first step would be to recognise that technology does bring pressures and that, rather than simply ignoring them, a proper strategy could bring benefits. Wanless identified the pressure to “adopt and diffuse both new and existing technologies at a fast rate in order to keep up with international best practice . . .” (ref b, 10.71). However, the NHS’ recent top-down, price-focused approach to procurement does nothing to address its “late and slow” adoption (though it may well exacerbate it) and there is no strategy for addressing the potential of disruptive technologies to improve productivity.

Consequences of a top-down approach to technology and strategy: an alternative approach

13. The Wanless interim report was clear that whilst some technologies may reduce unit costs, “in general, new technology tends to result in an increase in the volume of activity undertaken” (ref b, 10.8) as technologies expand the range of possible interventions and open them up to a wider group of people, in turn enabling people to be treated for longer”. In a top-down regime, this “volume effect” is seen as troublesome, rather than creating scope for some imaginative and strategic decision-making. The Treasury document published in November refers to the volume effect but seems to do no more than regard this as inevitable (para 5.62), without suggesting that a strategic approach could be taken to handling it.

14. The NHS’ approach to this has been to create the National Institute for Health and Clinical Excellence (NICE). However, centrally-led health technology assessment (HTA) is never likely to have the capacity to address the entirety of developments in technology nor to reflect the breadth of opportunities for incorporation of that technology into patient care. A decentralised approach will be needed to complement those central HTA processes that may be appropriate for high impact technologies. There needs to be some local leadership for HTA, better to reflect the diverse nature of medical devices and the continuous iterative nature of development.

15. The Cooksey report\(^\text{55}\) recognised in its section on Procurement and Innovation (paras 6.61ff) the need to introduce a more local element in procurement of technology. Such a decentralised, bottom-up approach to procurement of technology in healthcare may emerge along with Foundation Trusts (FTs). FTs operate within a rigorous regime which has a recognisable relationship to the kinds of financial disciplines and stringency of governance familiar in business (ref e). The need for long term business planning already requires FTs and prospective FTs to look hard at clinical areas where they are successful and where they are less so. This has the potential to lead to a much stronger focus on medical technology in areas where individual trusts have strengths they can build on, based on a realistic assessment of costs and volume effects which can be seen more sharply as a result of the introduction of Payment by Results.

Conclusion

16. The Treasury document identifies a range of challenges and risks to individuals and society and notes that, “as now, innovation will remain an important driver of economic growth, and contribute to increasing returns to skills.” In its coverage of technology clusters where the report suggests that “developments over the next decade are likely to impact on Government, businesses and individuals”, several are clearly of direct relevant to the delivery of healthcare, including for example, information handling and knowledge management, nanotechnologies and body and mind sciences. The Treasury document says at para 5.5 that it will consider “how changes within these clusters will be reflected in opportunities to transform public service delivery and in new policy possibilities in key public service areas such as . . . health . . . where new technologies could present opportunities for Government but bring with them several related challenges”. However, the document does not provide this kind of analysis and the most substantial statement made about healthcare is that “the overall impact of technology in medicine is cost driving”. ABHI suggests that in the light of top-down pressure on the NHS from the centre and of serial difficulties in coping within even a much expanded budget, a re-invigorated approach is needed to technology in healthcare, if the potential identified in the report is to be fulfilled or even approached with any confidence. The seeds of this have been sown with the creation of Foundation Trusts.

17. In summary, a more local approach to strategy for technology in healthcare now needs to be encouraged by Treasury and Government in general, in keeping with the responsibilities and accountabilities given to operating units in any large business, if technology in healthcare is to become a challenge which can be addressed strategically in support of improved productivity, rather than remaining simply a burden.

\(^{55}\) http://www.hm-treasury.gov.uk/media/56F/62/pbr06_cooksey_final_report_636.pdf
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   http://www.hm-treasury.gov.uk/media/1E4/71/bud06—productivity—513.pdf

   http://www.hm-treasury.gov.uk/consultations—and—and—legislation/wanless/consult—wanless—interimrep.cfm

c. HM Treasury: Securing our Future Health: Taking a Long-Term View, Final Report, April 2002; letter to the Chancellor of the Exchequer from Derek Wanless, page 9

d. King’s Fund: NHS Reform—Getting Back on Track, October 2006

e. For example, Monitor’s approach to ‘service-line’ reporting on costs and services
   http://www.monitor-nhsft.gov.uk/publications.php?id=957

Annex

MEDICAL TECHNOLOGY—A FEW CHARACTERISTICS OF THE UK MEDICAL DEVICES INDUSTRY

— The healthcare industries include manufacturers of medical devices, which are all kinds of products other than medicines used in diagnosis, prevention, monitoring or treatment of illness or handicap in humans, and regulated by the European Medical Devices Directives.

— There are estimated to be in excess of 2,000 companies engaged in medical device manufacture in the UK.

— Of these, 85% are very small companies, with a turnover around £5 million. Very few truly large companies are domiciled in the UK.

— The industry employs over 50,000 people, the second largest employer in Europe after Germany in this sector.

— UK manufacturers’ sales were £4.7 billion in 2004 according to ONS figures. The overall trade balance in 2004 remained positive, having fallen quite rapidly over a five year period, at £83 million.

— In comparison with the pharmaceutical industry, the sector has relatively short product development cycles and draws on innovation from a wider range of sources.

— The market is globalised and increasingly consolidated, requiring continuous investment in skills, knowledge and specialised infrastructure.

— In the UK, the industry’s close relationship with its market is an important strength, together with the ability to create technical solutions which address strategically important goals (the growth of day surgery, for example, has been made possible by the development of suitable instrumentation for laparoscopic as opposed to open surgery).

— Domestic strengths are particularly in R&D and are especially important in advanced wound care, diagnostics and orthopaedics.

— Improvements in the commercial clinical trials environment have been identified as significant for the competitiveness of the UK’s medical device sector and for R&D activities in particular.

— The NHS’ approach to procurement has an impact on the competitiveness of domestic firms and particularly on the development of SMEs.

Memorandum submitted by the NSPCC

EXECUTIVE SUMMARY

1. The direct and indirect economic and social costs and consequences of child abuse are enormous. The personal impact of abuse on a child’s life is incalculable, and can be far-reaching.

1.2 The NSPCC has identified three areas where early intervention can make a real difference to children and young people’s lives, preventing further harm, and can generate a significant reduction in overall spending in the long term:

   (a) Accessible, confidential, listening services for children.

   (b) Therapeutic help for abused children.

   (c) Support for young witnesses in giving evidence against their abusers.
1.3 The NSPCC is delighted that the Chancellor recently pledged to provide government funding for helplines for children. For this reason, we are not including information about this in our submission, but look forward to the formal announcement of this funding in the 2007 Budget.

1.4 Investment in the prevention of child abuse, and support and therapy for children who have been abused, is crucial if the social and economic impact of abuse is to be reduced. Investment can only be fully effective, however, if it is sustained over a period of time; it can take several years to help a child who has been severely damaged by abuse to recover. The three-year government funding cycle does not fit well with medium to long-term investment programmes of this kind. A commitment to such investment would reap enormous dividends in helping to repair children and young people’s lives and potentially lessen the current burden on adult services, such as those which provide treatment for mental health and substance misuse problems.

1.5 Our evidence is of particular relevance to the Government Review of stronger preventive support for children and young people “to ensure that in the future the cycle of disadvantage across generations is not perpetuated”, and policies to include mental health outcomes.56

1.6 We welcome the government’s commitment to holding an “open discussion about future priorities”, and consulting with “frontline professionals and the public to identify the investments and reforms we should make in the CSR to equip Britain for the challenges ahead”, and we will continue to contribute to this discussion.

1.7 It is the NSPCC’s view that a key priority for the Government’s CSR 2007 Children and Young People Review must be to address the enormous impact of child abuse on individuals and on society as a whole. Children’s life chances and opportunities can be damaged and compromised if they experience abuse, which can lead to low self-esteem, mental health and substance misuse problems and contribute to the “cycle of disadvantage across generations” that has been identified in the pre-Budget report.57

1.8 If we really want to start reducing child abuse then we need to co-ordinate investment across government, and have a Public Service Agreement (PSA) on maltreatment, underpinned by shared PSA targets across government departments.

2. THE COST OF CHILD ABUSE

2.1 Child abuse costs the UK an estimated £12 billion annually. This figure is based on an application of the formula developed by Prevent Child Abuse America (2001)58 which took account of all the direct and indirect costs of child maltreatment.59 [See Appendix 1]. Direct costs include hospitalisation, chronic health problems, the mental health care system, the child welfare system, and the law enforcement and judicial system. Indirect costs include special education, mental health and health care, juvenile delinquency, lost productivity to society and adult criminality.

2.2 In 2004, research by the NSPCC60 used international comparisons to estimate the short-term and long-term cost of child abuse. Based on immediate expenditure, the short-term cost is calculated to be £20,000 per case. This includes investigation, protection, prosecution and care. The long-term figure is estimated to be £60,000 per case, but this is highly speculative. Current expenditure on tackling child abuse should be considered in this context and seen as an “invest to save” policy.

3. THERAPEUTIC SERVICES FOR ABUSED CHILDREN

3.1 Research into the effects of abuse consistently shows serious and lasting damage to children. For them the horror of abuse does not stop when the abuse stops and can continue into adulthood. This is more likely if the child is not given support and help to assist them in overcoming the effects of the abuse. Adults being treated for mental health problems, for example, often identify child harm as an influence.

3.2 The long-term consequences of child sexual abuse, for example, are increasingly being recognised. These include anxiety and depression, anger and guilt, poor self-image, difficulties in functioning at school— and later at work— difficulties with personal relationships and parenting, sexual problems and physical effects.61 Abused children can suffer post traumatic stress disorder (PTSD), a condition commonly

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56 November 2006 Long-term opportunities and challenges for the UK: analysis for the 2007 Comprehensive Spending Review, HM Treasury, paragraph 1.35.
57 Ibid.
59 That is, the cost was worked out on a head of population basis, and then applied to the UK population according to the 2001 Census.
61 Baginsky, M. (eds) (2001), Counselling and support services for young people aged 12–16 who have experienced sexual abuse: a study of the provision in Italy, the Netherlands and the UK, NSPCC, London.
associated with major accident victims or battlefield veterans. More generally, maltreated children are at risk of a range of psychiatric conditions which may contribute to their reduced ability to function successfully. These include cognitive distortions; depression and anxiety; dissociation; a decreased sense of self and others; low self-esteem and altered sexuality. They are at greater risk of becoming alcohol and drug abusers and of engaging in tension-reducing behaviours, such as self-mutilation, compulsive sexual behaviour and eating disorders. They are also at greater risk of suicide. Abuse can result in disturbed or antisocial behaviour and may even result in offending.

3.3 Providing therapeutic services for abused children can thus help to prevent the longer term costs and consequences of child abuse, and government expenditure on these. Child-centred therapeutic services use a variety of therapies and approaches to work with children to help them overcome the effects of the abuse they have experienced. Work can involve individual or group work, psychotherapeutic counselling, play therapy and art therapy.

3.4 For the 63% of looked after children who have been abused and neglected before coming into care, the effects of their experience can have an impact on their behaviour, which in turn can affect the success of their placement and their achievement in school. Therapeutic services can help the child to work through these effects and can contribute to creating more stability and better outcomes for the child in the longer term and should be an integral part of the government’s reforms for children in care, as set out in the “Care Matters” Green Paper.

Lack of services

3.5 The National Service Framework for children states that agencies working with children must ensure the provision of “A range of high quality and integrated services . . . to meet the assessed needs of the child or young person who has been or is at risk of being, harmed, abused or neglected.”

3.6 Providing therapeutic services for abused children is an essential element of achieving this, yet the evidence shows that provision is patchy and inconsistent. Studies for the Joseph Rowntree Foundation, charting the progress of government implementation of the recommendations of Sir William Utting’s report People Like Us, on safeguarding children living away from home, found that there had been “little or no progress in providing adequate help and treatment for abused children.” One of the report’s authors, Marion Stuart, quoted in The Guardian in 2005, has emphasised the need for the government to address this issue: “The services are generally inadequate. We know that children who have been sexually abused are more likely to harm themselves, or become prostitutes, or even go on to abuse others . . . This is a key area in which the government needs to engage. There is no proper strategy for treatment. No one in government seems to see it as their remit to sort this problem out. There is a real issue about responsibility and accountability here.”

3.7 This is consistent with other research: one detailed study of the provision of therapeutic services for sexually abused children estimated that 90% of children who had experienced sexual abuse had received no substantial support. According to the authors, the responses received from the social services departments involved in the study, while not claiming to be nationally representative, do “match the anecdotal comments received from around the four countries [of the UK].”

70 “Safeguarding and promoting the welfare of children”. Standard 5 of the National Service Framework for Children, Young People and Maternity Services.
71 Progress on safeguards for children living away from home (November 2004), Joseph Rowntree Foundation Findings—Ref NS4, available at: http://www.jrf.org.uk/knowledge/findings/socialpolicy/ns4.asp. This summarises key findings from two JRF reports: Stuart, Marion and Baines, Catherine Progress on safeguards for children living away from home: A review of action since the People Like Us report and Stuart, Marion and Baines, Catherine, Safeguards for vulnerable children: Three studies on abusers, disabled children and children in prison.
3.8 The Department of Health has stated that there are no reliable data on the availability, referral patterns or use and take up of treatment interventions for children who have been abused. The data that do exist suggest that treatment services are not equitably distributed across the country. There is also wide variation in the UK with respect to the approach of child and adolescent services to accepting referrals of this group of children.74

3.9 It is important to provide different types of services for children who have different levels of need. The government should fund a delivery plan at national and local levels to ensure comprehensive provision of child-centred therapeutic services for all abused children who are assessed as needing them. This may need to include developing a new model for providing such services directly through the voluntary sector.

4. YOUNG WITNESS SUPPORT SERVICES

4.1 Support for young witnesses is under-funded and inconsistent. There is a need for more funding to ensure that all young witnesses are given support to help them with the process of giving evidence, and to maximise the likelihood of achieving justice.

4.2 Around 29,000 children in the UK are required to give evidence in court each year.75 For some, the unfamiliar court setting and complex procedures are combined with the stress and trauma of facing their abuser. This can be increasingly distressing, as they have to describe the personal details of abuse in front of strangers. In the words of Kathy, a 14-year-old witness:

“I was anxious and scared about going to court and felt intimidated by the defendant. It was difficult to sleep and eat in the weeks before the trial. I started self-harming and was treated for depression by my GP.”

Research

4.3 The Youth Justice and Criminal Evidence Act 1999 requires courts to take account of witnesses’ views about giving evidence. Recent research has described the experiences of 50 young witnesses giving evidence in predominately sexual offences cases. The report found that:

— Half of child witnesses did not understand the words or phrases being used in court.
— Just under half said that they had been accused of lying sometimes more than once.
— More than half were very upset, distressed or angry when in court. A fifth of them said they were crying, feeling sick or sweating.
— On average, child witnesses waited for almost a year before the trial, despite long-standing government policy to give priority to child abuse or child witness cases.76

4.4 The Joseph Rowntree Foundation research by Stuart and Baines (also cited above in para 3.6) found that although progress has been made in establishing appropriate arrangements for abused children giving evidence in court, implementation is slow and under-resourced.77 They also found that little or no progress had been made in bringing abusers to justice and securing convictions.

4.5 Children need to be helped to give their best possible evidence for justice to be achieved. The NSPCC’s Young Witness Services aim to:

— reduce the stress experienced by children and young people who may have to give evidence in court;
— prevent further trauma that may be caused by their experience of the court and legal processes; and
— ensure, where possible, that the needs of young witnesses in general are given full and appropriate attention by the criminal justice system and professionals working in that system.

4.6 The services offer support to the young person before, during and after the trial, including meetings at the child’s home and a pre-trial court visit to understand procedures and familiarise them with any TV link equipment. During the trial, the young witness is accompanied into the court room or TV link room by a volunteer Young Witness Supporter or the Young Witness Worker. The NSPCC also provides assessments to the court about the capacity and needs of the young witness. Post-trial follow-up work includes debriefing the young witness and their parents/guardians, and addressing onward referral issues, such as counselling or post-abuse treatment.

77 Op cit at note 16.
Effectiveness of the services

4.7 Independent evaluations of the NSPCC’s Northern Ireland Young Witness Service\(^{78,79}\) demonstrate that the service is highly valued by children and their parents/guardians; in particular they value the help it provides in reducing the stress and the trauma of preparing for court hearings including sentencing decisions. The professionalism and independence of the service is held in high esteem by key stakeholders within the judicial system:

“I couldn’t have gone into court without the Service. Even after I gave my statement to the police I had doubts about being able to go to courts. They (the Service) go out of their way. They come to your house. I’m really grateful I had [a supporter].” Child Witness

“This firm has acted for defendants charged with offences and cases involving young witnesses. It would be our collective view that the NSPCC scheme is of considerable benefit to all concerned . . . The scheme’s greatest benefit lies in the fact that the charity is an uninterested party as far as outcome is concerned and the entire focus of the scheme therefore can be directly trained upon the young witness . . . Unfortunately the criminal justice system is not necessarily attuned to the needs of these individuals and the work of the scheme helps to bridge the gap between the prosecuting authorities and the victims.” Solicitor\(^ {80} \)

Why should the Government invest in this?

4.8 The Home Office is concerned to achieve justice for victims of crime. Providing good support for young witnesses can help to minimise the likelihood of them withdrawing from giving evidence, and make it less likely that the investment that has been put into putting together expensive prosecutions will be either unsuccessful or abandoned.

5. The Child Index

5.1 The pre-budget report makes reference to the new information-sharing index now known as the Child Index being developed to improve contact between the professionals working with a child (para 5.50).

5.2 The NSPCC is not convinced that the costs of the Index represent value for money. Eleven local authorities were offered funding to trial a number of indexes during 2005 and 2006, but there is no quantitative or empirical evidence available as to how the trials improved outcomes for children. More importantly, there is little evidence available about the impact of the trails on the lives of vulnerable children and on the practice of those professionals involved. The lack of this information means there is no real analysis of the benefits of a national index of this kind, particularly for the estimated group of 3 to 4 million vulnerable children.

5.3 It is important to know whether the costs of the Index are justified. Experience of the “trailblazing” authorities may indicate some benefit to the group of vulnerable children where an index of professional contact can be of some use, particularly around earlier accessing of resources. If parental consent is given to use the Index this may prove a useful tool in supporting vulnerable children and their parents.

5.4 Alternatively, it may also indicate that the Index will be of no tangible benefit for improving services for children and that the money can be spent more effectively elsewhere. We already know that relatively small amounts of money provided to frontline services can significantly alter outcomes for children. For example, the Quality Protects initiative had a significant positive effect on the lives of many looked after children, and cost a fraction of the amount the Index is projected to cost. At a wider level, this money could be used to recruit and train frontline staff such as social workers and special needs assistants in schools.

5.5 Even if the Index proves to be effective locally, its full benefit can be realised only if it is functioning effectively at a national level, and information is maintained securely and accurately. As the Index is not yet operating nationally, it is currently impossible to assess its effectiveness in this regard.

5.6 Finally, overspending on databases is not uncommon in the public sector. If the projected costs of the Index are a conservative estimate, then any funding shortfall could leave local authorities covering the additional costs. There is also a duty on the local authorities to maintain the accuracy and security of the database. This is likely to add to its long-term costs and much of this will go towards maintaining records of children who are well cared for by their parents. This could well divert finance from those services supporting vulnerable children.

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6. MEASURING THE IMPACT OF SAFEGUARDING INTERVENTIONS

6.1 The NSPCC is mindful that the government wishes to reduce the number of public service agreements. However, it is important to be able to measure the effectiveness of government investment in preventing child abuse and its long-term consequences, such as the government’s commitment to investing in listening services for children at risk.

6.2 The NSPCC has recently undertaken developmental work for the Department for Education and Skills to provide policy makers and practitioners with a rudimentary evidence-based conceptual framework to facilitate the development of a PSA target on safeguarding children. The approach taken in the paper is that children’s safety and well-being is intrinsically linked to the quality of preventive mechanisms at four different levels of prevention. All four are of key relevance to the government’s aim to prevent the cycle of disadvantage and improve children and young people’s life chances. Without an appropriate measure, it is extremely difficult to assess the effectiveness of the actions taken to achieve this objective.

APPENDIX 1

PREVENT CHILD ABUSE AMERICA’S ESTIMATE OF ANNUAL COST OF CHILD MALTREATMENT IN THE UNITED STATES

<table>
<thead>
<tr>
<th>Direct Costs</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitalisation</td>
<td>6,205,395,000</td>
</tr>
<tr>
<td>Chronic Health Problems</td>
<td>2,987,957,400</td>
</tr>
<tr>
<td>Mental Health Care System</td>
<td>425,110,400</td>
</tr>
<tr>
<td>Child Welfare System</td>
<td>14,400,000,000</td>
</tr>
<tr>
<td>Law Enforcement</td>
<td>24,709,800</td>
</tr>
<tr>
<td>Judicial System</td>
<td>341,174,702</td>
</tr>
<tr>
<td><strong>Total Direct</strong></td>
<td><strong>24,384,347,302</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indirect Costs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Education</td>
<td>223,607,830</td>
</tr>
<tr>
<td>Mental Health and Health Care</td>
<td>4,627,636,025</td>
</tr>
<tr>
<td>Juvenile Delinquency</td>
<td>8,805,291,372</td>
</tr>
<tr>
<td>Lost Productivity to Society</td>
<td>656,000,000</td>
</tr>
<tr>
<td>Adult Criminality</td>
<td>55,380,000,000</td>
</tr>
<tr>
<td><strong>Total Indirect</strong></td>
<td><strong>69,692,535,227</strong></td>
</tr>
</tbody>
</table>


January 2007

Memorandum submitted by the NSPCC, the University of York and the Frank Buttle Trust

EXECUTIVE SUMMARY

This joint submission is based on the outcome of a research project which is looking at the complex relationship between poverty, parenting and children’s well-being.

This submission comments on five key areas: eradicating child poverty by 2020; a preventative approach to stop the cycle of disadvantage; improving the life chances of children and young people; and increasing fairness and social justice.

Tackling social exclusion and developing a more cohesive society

— Outreach services need to be developed, in particular for those with mental health problems, which is a particular issue in minority ethnic communities.
— Interpretation services need to be developed.
— Social care services need to develop their understanding of the impact of poverty on families and children.

**Eradicating child poverty by 2020**

- Access to passported benefits should be made available to those living below a specified income threshold as well as to those on income support.
- Advice on benefits and in-work tax credits as well as housing and debt management must be improved, and be made available in more locations, such as GP surgeries.
- Childcare from friends and family must be eligible for financial support under the tax credit system.

**A preventative approach to stop the cycle of disadvantage**

- Information on childcare and other services must be made available to low-income families, as well as expanding free and accessible facilities, such as parks and playgrounds.
- GP surgeries need to be able to provide information about local support services, to provide co-located services and information and advice for families and to act more quickly to respond to parental mental health problems.
- Social workers must also provide information about local support services, as well as sources of advice on financial matters for families on low incomes.
- Respite childcare should be provided to low-income families not in work.

**Improving the life chances of children and young people**

- More investment in low-cost housing is urgently needed, especially in London, to address issues of overcrowding and inappropriate temporary accommodation.
- Improved advice and support for parents whose children have social, emotional and behavioural difficulties is needed. This is particularly needed for parents of older children.
- Children who have been abused should have a right to therapeutic help within three months of disclosure and services should be resourced sufficiently to guarantee this.
- Access to counselling and therapeutic services for children and parents needs to be radically improved, with waiting times made much shorter than at present.
- A more holistic and sensitive approach is needed for professionals working with families. This includes clearer communication with families around social services intervention.

**Increasing fairness and social justice**

- More information needs to be made available to families about children’s disabilities.
- A School Grants system should be added to the Social Fund to help those on low incomes with school-related costs, such as uniforms. More subsidies are also needed for school trips to enable all children to participate.
- The response of housing departments to families, particularly in London, has to be improved.
- Affluent areas need to give consideration to how to ensure low-income families have access to services and amenities.

1. **INTRODUCTION**

1.1 This submission is based on the outcome of a joint research project of the NSPCC, York University and the Frank Buttle Trust82, which sought to increase understanding of the complex relationships between poverty, parenting and children’s well-being in diverse social circumstances.

1.2 The research involved 70 low income households, 38 living in relatively affluent areas, 32 in areas with high levels of deprivation. Interviews were carried out with 82 adults (67 women, 15 men) and 59 children (34 girls, 25 boys). Two thirds of the households were lone parent households. In the affluent areas, the sample was almost entirely white British. In the deprived areas, 32% of the adults and 21% of the children were Bangladeshi, and 23% of the adults and 25% of the children were Black African or Black Caribbean. Participants were recruited through Social Services Departments (including some who had children on the child protection register and receiving family support), voluntary organisations and schools. Focus groups were also held with professionals to explore their perspectives on the relationship between low income families and services.

1.3 The National Society for the Prevention of Cruelty to Children (NSPCC) is the UK’s leading charity specialising in child protection and the prevention of cruelty to children. The NSPCC aims to end cruelty to children by seeking to influence legislation, policy, practice, attitudes and behaviours for the benefit of children and young people. This is achieved through a combination of service provision, lobbying, campaigning and public education.

1.4 The Department of Social Policy & Social Work at the University of York has a wealth of research experience in the fields of poverty and child welfare. Members of the department recently produced two overview reports on the well-being of children in the UK83. Dr Carol-Ann Hooper, who was lead researcher for the UoY half of the project, has worked in the field of child abuse, child protection and family support for 17 years. Professor Jonathan Bradshaw, an international expert in the field of child poverty, was a member of the Advisory Board.

1.5 Founded in 1937, The Frank Buttle Trust is the largest UK charity providing grant aid to individual children, young people and families in critical need. The Trust also looks at more strategic ways to improve the life chances of future generations of children and young people, by influencing opinion formers, policy makers and practitioners, through, for instance, the commissioning and dissemination of specifically targeted research projects, such as this one.


2.1 The concluding chapter in this report explains how the Government will use the 2007 Comprehensive Spending Review (CSR) to ensure further progress against its established long-term goals. Based on these conclusions, specifically paragraphs 8.25 to 8.28, this submission comments on five key areas, as follows:

- tackling social exclusion and developing a more cohesive society;
- eradicating child poverty by 2020;
- a preventative approach to stop the cycle of disadvantage;
- improving the life chances of children and young people; and
- increasing fairness and social justice.

3. **TACKLING SOCIAL EXCLUSION AND DEVELOPING A MORE COHESIVE SOCIETY**

3.1 More services are needed that go into people’s homes to reach the most vulnerable parents in need of support, and/or to develop creative ways of engaging parents. This is especially important for parents with mental health problems who may lack the energy, motivation or confidence to approach services themselves.

3.2 Public education around mental health should seek particularly to address the stigma attached to mental health problems in minority ethnic communities, such as the Bangladeshi community.

3.3 Interpretation services should be widely available, as should information for families in all languages in all services.

3.4 All organisations providing training for professionals working with parents, particularly social workers and health visitors, need to pay more attention to the many and complex ways in which poverty impacts on family life; appreciation of these issues is essential if practitioners are to engage families on low incomes in service provision and alleviate rather than increase social exclusion. The National Academy for Parenting Professionals may have a significant role to play here.

4. **ERADICATING CHILD POVERTY BY 2020**

4.1 In order to help realise the Government’s target of eradicating child poverty by 2020, our research indicates that specific changes to the benefits and tax credits systems, including eligibility for passported benefits (such as free school meals) and social fund grants should remain open to those in work but whose income remains under a predetermined threshold.

4.2 The potential gains from work income should not be undermined by the loss of housing benefit and council tax benefit. These are both important contributors to parents deciding that working is not worth it. We would like to see a gradual reduction of these benefits in line with income, and greater flexibility built into the benefits system to allow for short-term changes in circumstances.

4.3 Eligibility for the social fund should be extended to those out of work who receive benefits other than income support (eg Incapacity Benefit, Disability Living Allowance and Carer’s Allowance, and contribution-based Jobseeker’s Allowance).

4.4 In addition, access to advice on benefits and tax credits needs to be improved with consideration given to making it available in locations parents already go to, such as GP surgeries, or via practitioners they already see, such as health visitors. Initiatives of this kind are beginning and should be extended. Application forms also need to be simplified.

4.5 Access to help with budgeting and managing debt needs to be increased, including free legal advice. A limit to the interest that can legally be charged for loans should be introduced to reduce debt and its escalation.

4.6 Childcare from friends and family should be eligible for subsidy under the tax credit scheme to allow parents to make use of childcare that may be more available and acceptable to them than formal arrangements. While family members can become registered childminders at present, if they provide care for at least one other child, there are costs for registration, and some may prefer not to submit family relationships to formal regulation.

4.7 All services need to consider how to meet childcare needs, assist with these costs and/or take account of childcare responsibilities.

4.8 A recent report by Harker, makes a series of recommendations to facilitate more parents working in jobs which lift them out of poverty in a sustainable way, and to raise the incomes of those not working, including by increasing benefit levels. We urge the government to act on these recommendations.

5. A Preventative Approach to Stop the Cycle of Disadvantage

5.1 All agencies with responsibility for children’s well-being at a local strategic partnership level

5.1.1 The new duties which local authorities are acquiring regarding information on childcare and other services for families mean information is now being compiled. This information must be made available to all families, including those with little contact with services (other than a GP or possibly health visitor) and no internet access.

5.1.2 One-stop-shops and call centres should have freephone numbers to ensure that their use is not restricted by cost, and all individuals from all sectors of society are able to make use of them.

5.1.3 Free and accessible facilities and activities for children and young people living on low incomes need to be increased. Public spaces such as parks, playgrounds and sports facilities need to be better maintained, and in some contexts supervised to ensure children are not frightened to use them because of local gangs.

5.1.4 Initial and ongoing training for professionals who work with children must ensure that they have the skills to engage with young children and listen to their views, both in the context of safeguarding them and in their work with family courts. The tendency to regard 12 as the age at which children are able to judge their own interests may leave younger children at significant risk of harm.

5.2 Providers of health services

5.2.1 GPs need to have access to information about local support services that they can recommend and refer families to. This is particularly important for those families with mental health problems and minority ethnic families who may only ever visit the GP.

5.2.2 Consideration also needs to be given to extending the role of GPs in child protection preventive work, for example, through voluntary screening for problems such as domestic violence and drug and alcohol abuse to enable parents to be referred to appropriate services for help.

5.2.3 The use of GP surgeries as bases for co-located services and information and advice for families, including information relevant to low-income families, should be considered.

5.2.4 GPs and health visitors need to act more quickly to respond to mental health problems amongst parents, including diagnosis and referral, to prevent harm to children when problems escalate.

5.3 Providers of social care services

5.3.1 Social workers need access to a regularly updated directory of national and local support services for low-income families to refer families on to, specifically those with parenting problems and a range of associated issues such as domestic violence, rape, mental health problems, drug and alcohol abuse.

5.3.2 They also need accurate information about what financial help families can receive from where, including organisations they can apply to for financial and practical help where it is not available from social services.

5.3.3 More attention is needed on the emotional dynamics of the interactions between parents and social workers, in initial training and through sufficient ongoing supervision, to enable social workers to manage the emotional impacts of their work.

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5.4 Housing

5.4.1 Planning for services to promote children’s well-being should include attention to the availability and quality of low-cost housing. The impact of poor housing on parents’ and children’s well-being is not sufficiently acknowledged.

5.5 Childcare

5.5.1 Improved access to affordable childcare is needed not only to enable parents to work, but for respite and relief from childcare responsibilities for parents who are not working but under particular stress.

5.6 Education

5.6.1 Homework clubs need to be available in all areas to ensure children have help with homework when their parents are unable to provide it.

5.6.2 Training should also increase teachers’ understanding of the pressures faced by families living in poverty, and the implications for both teaching children and engaging with parents.

6. Improving the Life Chances of Children and Young People

6.1 Housing

6.1.1 There is an urgent need for more investment in low-cost housing, especially in London, to address issues of overcrowding and inappropriate temporary accommodation. There is also a need for much greater investment to deal with problems with existing housing (for example cockroaches, damp, infestations of insects, broken fixtures, ill-fitting windows, no central heating) if the Government is to meet its target that all social housing should reach the “decent homes standard” by 2010.

6.2 Education

6.2.1 Improved advice and support for parents whose children have social, emotional and behavioural difficulties is needed. Also more information is needed about the process of children receiving a statement of special educational needs. Information, support and advocacy for parents whose children have special education needs, including social, emotional and behavioural difficulties, needs to be available in all areas, provided either by local authority advice centres or in partnership with voluntary organisations.

6.2.2 Schools need to ensure that they communicate clearly with parents when problems arise at school with children, both explaining their concerns and listening to the parents’ experience of their children.

6.2.3 Children under stress at home should have easy access at school to support services, including counselling, advocacy and referral to other services.

6.3 Health and social care

6.3.1 Midwives are now expected routinely to screen for domestic violence as part of ante-natal care. They should also provide space for the experience of rape (by a partner or by someone else) to be explored. This would help to identify women at an early stage who are pregnant as a result of rape and provide them with appropriate support.

6.3.2 Resources for health visiting need to be increased, and training for health visitors must be provided to enable them to help parents whose children have developed behaviour problems.

6.3.3 Children who have been abused should have a right to therapeutic help within three months of disclosure and services should be resourced sufficiently to guarantee this. This could significantly improve children’s well-being, enhance their ability to achieve their full potential, and contribute to the prevention of anti-social behaviour, mental health problems and teenage pregnancy.

6.3.4 A more holistic approach is needed for professionals working with families. Both anti-oppressive practice and the ecological framework\(^{85}\) require social workers to have a fuller appreciation of the many ways poverty impacts on family life. Many parents also have histories of and/or ongoing abuse, violence and trauma in their own lives, and need support for their own needs alongside intervention on their children’s behalf. More recognition is also needed of the impact of children with serious social, emotional and behaviour difficulties on their parents and siblings, and appropriate help offered to manage and reduce it.

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\(^{85}\) This framework is the mechanism used to determine whether a child is “in need” as per s 17 of the Children Act 1989, and explained more fully in The Framework for Assessment of Children in Need and their Families (Department of Health, Department of Education and Employment, Home Office, 2000).
6.3.5 Access to counselling and therapeutic services for children and parents needs to be radically improved, with waiting times made much shorter than at present. A range of approaches need to be available, with flexibility over timing to allow people to seek help when they need it and for as long as they need it. This service should be available in a number of different settings.

6.3.6 More services are needed to support parents with older children, particularly in relation to managing social, emotional and behavioural difficulties. Those working with parents in all contexts need to be able to offer advice and information, including about further help available. Mentoring schemes for parents and the use of specially trained foster carers to offer respite to the rest of the family would be helpful.

6.3.7 Clearer communication with families is needed around social services intervention. Parents’ anxieties need to be reduced sufficiently to enable them to explain their circumstances fully at investigation and assessment. Information needs also to be provided from the social worker and others, particularly in relation to the reasons for registration and any follow-up processes, so that parents can refer back to it when they need to, to alleviate any confusion or uncertainty.

6.3.8 High turnover of staff in social care services for families is a particular problem, which can undermine the development of trusting relationships. Hence recruitment and retention problems need to be addressed in these areas.

7. INCREASING FAIRNESS AND SOCIAL JUSTICE

7.1 Family courts

7.1.1 The views of all children, including those under the age of 12, should be given due consideration in disputes over contact and residence.

7.2 The criminal justice system

7.2.2 Care needs to be taken to explain why cases involving child maltreatment are dropped or defendants acquitted, both to parents and (in age appropriate ways) to children.

7.3 Local authority housing departments

7.3.1 The response of housing departments to families, particularly in London, has to be improved. Systems need to be in place to provide quicker and more efficient responses to families experiencing problems with housing. Acknowledgement of problems and communication with families about their housing situation would be a basic, yet much appreciated, step. Also there needs to be more access to free legal advice and advocacy support for families about housing issues in order to help those who are less able to fight for change.

7.4 Health

7.4.1 An information pack should be made available to all those suffering from mental health problems when they are prescribed anti-depressants, to include information about the nature and frequency of mental health problems, the possible impact on other family members and other sources of help (including self-help groups), and self-help advice.

7.4.2 More information needs to be made available to families about children’s disabilities; families need to have information about the nature of the disability, how they can support their children and best meet their needs, what support they will receive from the local authority, and how children’s needs are likely to change over time.

7.5 Access to services and amenities

7.5.1 Relatively affluent areas need to give particular consideration to how to ensure low-income families have access to services and amenities (eg through extending help with transport and childcare where services are at some distance).

7.6 Transport

7.6.1 Access to cheaper or free public transport needs to be increased for low income families (following the example of London).

7.6.2 The distance requirements for eligibility for transport subsidies to and from school need to be revised; currently children under eight are only eligible if they live more than two miles away, and children over eight if they live more than three miles away. Since children walk to school much less frequently than they used to, this can result in substantial time and financial costs for parents.
7.7 Education

7.7.1 A School Grants system should be added to the Social Fund to help those on low incomes with school-related costs, including school uniforms. At present, local authorities make variable provision for school uniforms, but their obligation relates only to the time when children change schools from primary to secondary. Children need new uniforms as they grow, and inability to afford them contributes significantly to social exclusion and the risk of bullying. Local authorities need to consider the current grants they provide for low-income families for school uniforms as the average cost for school uniform and PE kit is £224.69, and the average local authority grant is £51.27. Many local authorities no longer provide these grants.

7.7.2 More subsidies are needed for school trips to enable all children to participate. Existing subsidies for low-income families should be extended beyond those on income support to all those up to a certain income level. Care needs to be taken in communications over extra activities with costs so that parents on low incomes are not intimidated or embarrassed if the costs, however small, are beyond their budget.

7.7.3 More sensitivity is needed to enable schools to plan for the needs of all children, and understand that children in low-income families may have had more limited opportunities to travel, visit museums and cinemas, and take advantage of facilities in their area.

January 2007

Evidence submitted by the Local Government Association

Executive Summary

1. Local government has a bold ambition for the future. In “Closer to People and Places”, we set out our key objectives of securing more fundamental improvements in public services and making better use of public money. We believe that the complexity and diversity of the challenges we face place a premium on a local response to local circumstances, and the development of local solutions and local choice.

2. Meeting those challenges at a time when local government potentially faces a real terms funding freeze, whilst demand for services will continue to increase and costs are still rising, will be difficult.

3. Over the CSR07 period, there will be over 400,000 more older people, many of whom will require social care. At the same time, we have a vision of providing better care, more choice and improving the health and wellbeing of older people. Without additional funding, local government may potentially face a situation, by as early as 2009, where it cannot afford to provide support to the people with lower levels of need. Crucially, this is the sort of early intervention care that enables people to stay in their own home longer and can save the NHS money.

4. Waste volumes are rising; landfill tax is rising by 15% each year and soon local government will face penalties of over £200 million if we exceed our landfill allowances. We have a long way to go in reaching the levels of recycling seen in Europe. We will need to increase spending by 10% each year to meet the EU landfill directive. Local government is, however, willing to consider innovative solutions to manage this pressure, but this must be done alongside a commitment from government to this national challenge.

5. Government has a vision of improving the life chances of looked after children, giving every child a good start in life and ensuring that every child does matter. This cannot be achieved with a “funding freeze”.

6. Even if local government can meet an even higher cashable efficiency target, without cutting services, these services will require additional investment to meet the major challenges over the CSR07 period.

7. Local government is committed to delivering high-quality public services. It believes that focusing on a small number of genuinely national priorities will allow councils, working though local area agreements, to tailor their work to meet local circumstances and find local solutions to problems. It is vital that the overall burden of nationally prescribed performance indicators is reduced and the final number should not go beyond the 200 set out in the White Paper.

8. The challenges of the future are great and government has set high ambitions for what it hopes to achieve. Is, however, the government prepared to pay for the cost of meeting the future challenges it has outlined? If it is, local government is committed to working together to deliver the high-quality public services that local people want. If not, then the LGA calls on the government to be honest about the priorities it is prepared to fund, the impact this will have on local services and the burden it is choosing to shift onto council tax payers.

1. **The Local Government Association**

1.1 The Local Government Association (LGA) represents almost 500 councils in England and Wales. These represent over 50 million people and spend around £74 billion a year on local services.

1.2 The LGA exists to promote better local government. We work with and for our member authorities to realise a shared vision of local government that enables local people to shape a distinctive and better future for their locality and its communities. We aim to put local councils at the heart of the drive to improve public services and to work with government to ensure that the policy, legislative and financial context in which they operate, supports that objective.

2. **The Challenges of the Future**

2.1 Britain will face a number of challenges over the decade to come, and CSR07 offers the opportunity to consider how central and local government will meet them. The government has outlined these as:

- demographic and socio-economic change;
- increasing pressures on our natural resources and climate change;
- cross-border economic competition;
- innovation and technological change; and
- global uncertainty.

2.2 There is an emerging consensus that further improvement in public services and the quality of life can be best driven locally, as evidenced in the local government white paper. Yet figures from the budget report show that government is proposing to deliver no real terms growth for the valuable services that local government provides at a time when demand is rising.

2.3 The following analysis of the scale of challenges facing local government reveals how these cannot be met with a “funding freeze” and highlights the potential implications for local people if scarce resources are not reprioritised in CSR07 or additional resources found.

3. **Demographic and Socio-economic Change**

*Population growth*

3.1 Local government will face the challenge of not only delivering increasingly high-quality and efficient services, but delivering them to an increasing and changing population (chart 1). The over 65 age group is where the largest growth in the population will occur, increasing at least 1.5% each year over the CSR period. Put simply, more people means more demand for services.

**Chart 1 - UK Population estimates and projections by age group: 1971-2036**

3.2 The number of households will continue to grow, by around 14% over the next 20 years, placing considerable demand on local government services, such as waste (chart 2).
3.3 Growth in population and households will have important implications for providing housing. It has been estimated that the need for affordable housing in the next twenty years is 104,000 new affordable homes per year (both rented and subsidised ownership). This will clearly require significant investment.

3.4 Local authorities are facing the challenge not only of population growth generally, but population growth in parts of society that can place a disproportionate burden on local authority services.

INCREASING MIGRATION AND DIVERSITY

3.5 With latest statistics showing 1500 migrants arriving daily, this is placing an unforeseen demand on services for local authorities. A number of authorities consider that the ONS mid-year estimates understate the number of migrants. This means that authorities do not receive support from government to cover the costs, such as those outlined below:

One London authority has reported increased homelessness and rough sleeping, with many new migrants sleeping in squats or, if employed in the building trade, sleeping on site. A count in one day in August 2006 revealed 106 people street drinking; 38 of these were of Eastern European origin;

Two primary schools in Slough have taken on 60 Somali and 50 Polish children respectively in one term and a new assessment centre processes 8 children a week and growing at a cost of £90,000 per year.

3.6 It is not only the diversity of the population origins that poses a challenge for local government, but the diversity of wealth of the population that comes from changing family structures. The number of people living in lone parent households will increase five-fold in the next 20 years (chart 3). This is a key factor in child poverty. Over four in ten children living in poverty have lone parents, and of these, nearly 80% are not working\(^7\). This trend will therefore make the target of halving child poverty by 2010 all the more difficult to achieve, unless government supports local government.

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\(^7\) What will it take to end child poverty?—Donald Hirsch for Joseph Rowntree Foundation 2006.
3.7 Local government is committed to reducing child poverty and ensuring that every child does matter. Delivering the government’s ambitions to provide valuable early intervention services to the 20% most disadvantaged wards through children’s centres and provide high quality and accessible childcare will be difficult without additional funding. Improving the life chances of children in care (for example by allowing young people to remain in high-quality stable care until age 21) and caring for increasing numbers of children in need will also be a major challenge, that will not be achieved if government is not prepared to invest an additional £250 million per annum in these children.

An ageing population

3.8 The government has said that CSR07 provides an opportunity to consider how we meet the future challenge of an ageing population. Over the CSR07 period, the number of 85+ people is forecast to rise by between 2.2–2.6% per annum, placing immense pressure on adult social care budgets.

3.9 It is not simply the rising number of elderly people that presents local authorities with a challenge, but it is the increasing complexity of their needs. It is estimated that the number of people with a learning disability, who are known to social services will increase by 12% by 2011 from 173,000 in 2001. These demographic changes are estimated to require additional investment of approximately £300 million each year.

3.10 According to CSCI, this increased demand and complexity is already leading to “the tight targeting of statutory support towards those with critical levels of need” and “has resulted in a gradual reduction in the numbers of older people receiving state-funded home care”.

3.11 Local authorities actually want to deliver services that are built around what each person wants, not only to meet their health and care needs but also to improve well-being. The Department of Health’s own white paper “Our health, Our care, Our say” emphasises early intervention. The LGA believes that this will require a more joined-up approach across health and social care and a shift in resources of approximately £300 million from acute to prevention. This will enable scarce resources to be spent more effectively, whilst providing the kind of care people want and deserve.

3.12 On current trends of increasing eligibility criteria, local authorities will no longer be able to afford to provide care and support to people with low and moderate needs in 2009/10 (chart 4). This is the kind of care that is crucial to delivering the Government’s vision of improving the health and well-being of elderly people.

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89 2006–07 Social Services Finance Survey.
Chart 4 - Fair Access to Care - Reducing support to people with low and moderate needs

By 2009/10, preventative care for elderly people will end - only those with substantial and critical needs will receive care.

% of authorities providing care to people with low and moderate needs

Linear (% of authorities providing care to people with low and moderate needs)

2005/06 2006/07 2007/08 2008/09 2009/10

% of authorities providing care to people with low and moderate needs

Source: Social Services Finance Survey 2006–07.

4. PRESSURE ON NATURAL RESOURCES AND CLIMATE CHANGE

4.1 The challenge of climate change and local authorities’ contribution to this agenda through managing waste is significant. Local authorities face a huge challenge in managing rising volumes of waste, increasing recycling (from 27% to 40% by 2010) and importantly, changing household behaviour.

4.2 Defra have estimated that waste spending will have to more than double between 2003–04 and 2012–13, from £2 billion to £4.2 billion to meet the EU landfill directive targets\(^9\). Based on a five-year average, spending will have to increase by approximately 10% each year over the CSR07 period to reach the required level of spending (chart 5).

Chart 5 - Meeting the waste challenge
Local authority actual and forecast spending

Source: NAO Reducing the reliance on landfill in England; DCLG Local government finance statistics.

4.3 The National Audit Office has said that the risk that the UK will not meet the landfill directive is high. Local authorities will face fines, which could be over £200 million in 2013 if they exceed their landfill allowances and will pay landfill tax, which is increasing at £3/tonne each year.

4.4 Local government recognises, however, that it must respond to this challenge with innovative solutions to change behaviour and minimise waste, such as alternate weekly collection and introducing pay as you throw schemes where this suits local circumstances. Gaining public acceptance of such changes may be difficult, but local government is willing to rise to the challenge and consider innovative solutions. Government must recognise, however, that these changes must take place within the context of a workable settlement.

5. **Global Integration and Technological Change**

5.1 Similarly, local government has a unique role to play in meeting the challenge of global integration and technological change. If the UK is going to succeed in this fast changing world, English cities and towns need to compete globally as well as domestically, and cease to lag behind European cities. To do this local government needs a new devolutionary framework that draws down powers, decisions and investment to the local level in areas such as infrastructure, planning, housing, transport and skills to ensure we have modern cities with infrastructure fit for purpose.

6. **Meeting the Future Challenges**

6.1 The challenges that the government have stated will face Britain over the next decade, will be acutely felt by local government over the CSR07 period. Local government intends to rise to meet the challenge, and continue to build on our strong record of service improvement, performance and efficiency.

*Delivering value for money*

6.2 Local government has an impressive record on delivering efficiency savings to re-invest in front line services. Government is now proposing to raise the bar on efficiency, calling for 3% cashable savings, as part of a more radical and ambitious value-for-money programme.

6.3 Local government is concerned that this continued narrow focus on ever-increasing targets could place services at risk. Local government believes efficiency should now focus on the transformation of local public services.

6.4 The LGA has called for a three year target efficiency to align with three year funding and allow local authorities the flexibility to invest to save over the funding cycle. If the government is serious about achieving real efficiency savings, it too must be prepared to invest to save.

6.5 With large amounts of spending tied up in external contracts, the potential to drive out rapid efficiency savings is limited. This does not mean local government should not strive for maximum efficiency on all contracts with the private sector, but expectations need to be realistic.

*Achieving national outcomes and meeting performance targets*

6.6 The development of a small set of national priority outcomes expressed as PSAs sets a crucial framework for the relationship between central and local government. Focusing on a small number of genuinely national priorities will allow councils, working through local area agreements, to tailor their work to meet local circumstances and find local solutions to problems. It follows that PSAs should describe priority outcomes, not the means of achieving those outcomes. To reflect the fact that problems to be tackled do not present themselves in departmental packages, they should be cross cutting and they should not be mutually contradictory. The LGA will be facilitating the input of practitioners as departments develop PSAs to ensure that priorities expressed nationally make sense on the ground.

6.7 PSAs will be supported by indicators to monitor progress. It is vital that the overall burden of nationally prescribed performance indicators is reduced and the final number should not go beyond the 200 set out in the White Paper.

6.8 The high number of nationally prescribed indicators that we have at present:

— Creates a compliance culture and stifles innovation.
— Does not leave enough room for assessing progress on local priorities.
— Leads councils to duplicate effort by developing other more locally appropriate measures.
— Requires councils to collect information they would not otherwise collect for their own purposes.

6.9 Lifting this burden is a prerequisite for reforming the performance management framework for localities and helping councils become more self aware, more customer focused and strongly accountable to local people.
6.10 The LGA is actively working to develop tools to help councils measure the views of their customer more effectively. We see a place in national indicators for more customer or citizen focused measures but we advise caution on using simple customer satisfaction measures for making comparisons between councils or localities.

The cost of meeting the future challenges

6.11 The five key challenges that the government believe will face the UK in the CSR07 period and beyond are clearly great. So too is the cost of meeting them. Freezing funding to local government will mean they cannot be met.

6.12 Even with a continued commitment to increasing efficiency, the challenges of the future are so great that they cannot be met without either increasing the burden on local taxpayers, cutting local services or central government committing sufficient funding to meet the challenges of the future.

6.13 Chart 6 illustrates the choice that government must make, in the first year of CSR07, to meet the key challenges of the future. It does not include all the pressures on local government, but focuses on the key challenges, and may even understate these (for example, the full cost of the government’s ambition to improve the life chances of looked-after children).

6.14 Local government has a strong record on financial management and has kept council tax rises as low as possible over successive years, when faced with rising costs and demand. It has made efficiency savings, constrained demand, restructured services and made difficult choices to balance the books each year. It will continue doing this in the future if government freezes funding, in order to meet continued unavoidable pay and price inflation.

6.15 If, however, the government is serious about meeting the future challenges it has identified, it must make a vital choice in CSR07 about who will pay for this. Dealing with rising waste volumes and diverting it from landfill; providing the sort of adult social care that improves independence, health and wellbeing; and improving outcomes for looked after children are significant and costly challenges that face all local authorities.

6.16 Local government does not think it is right that the burden is shifted further on to the council tax payer. These are national challenges that we collectively need to address. Local government has a vision of improving public services, widening both access and choice and offering opportunity for all. It is difficult to imagine that central government does not share this vision. Cutting services is not part of this vision. If local government was forced to do this, it would actually undermine the government’s desire to ensure scarce resources are spent most effectively, as this would simply push higher costs onto other parts of the public sector.
6.17 Government must decide if it is serious about meeting the demographic, social, environmental and economic challenges of the future. If it is, investing in local services is crucial and local government is ready to play its part. If not, local councils and local taxpayers need to know, so they can prepare for the consequences. 

January 2007 

Memorandum by Professor David Heald, specialist adviser to the Committee

COMPREHENSIVE SPENDING REVIEW 2007: URGENT ISSUES FOR PARLIAMENT

INTRODUCTION

1. The Treasury is expected to publish Comprehensive Spending Review 2007 in July, shortly before the summer recess. Since the new public expenditure framework was established in 1998, a pattern of biennial Spending Reviews (1998, 2000, 2002 and 2004) had developed, which implied that there would be an SR2006. The postponement to 2007, announced on 19 July 2005 (Browne, 2005), was perceived not as a technical decision but as a political calculation relating to the likely timing of change in the leadership of the Labour Government. The Treasury stated that CSR2007 would be a more ambitious review than the biennial Spending Reviews, echoing CSR1998 at the beginning of the Labour Government. This postponement shortened the period over which government departments and their sponsored bodies had forward-year figures. With biennial SRs, the July announcement involves a rolled-forward first year starting eight months ahead and a brand-new second year starting 20 months ahead. In contrast, in July 2007, departments would receive brand-new 2008–09 plans only eight months before the start of that year. The Treasury’s recognition of this difficulty may have been one reason for some early CSR2007 settlements.

2. Recent public expenditure history has been astonishing in terms of continuing strong growth, only made possible by 2006–07 being the 15th successive year of real GDP growth. Total Managed Expenditure (TME) has increased by 66% in “cash”91 and 39% in real terms in the period from 1998–99. There is a spectacular contrast with the preceding five years: real-terms expenditure was almost identical in 1998–99 to what it had been in 1994–95 (Treasury 2006a, Table 3.1 on page 42). After a long period of feast, CSR2007 will start a period of relative famine. Pre-Budget Report 2006 (Treasury 2006d, Table B16 on page 240) does not provide TME figures beyond 2007–08. However, public sector current expenditure, which constitutes 91.7% of planned TME in 2007–08, is planned to grow in real terms by 2.0% in 2008–09 and by 1.9% in each of the years 2009–10 to 2011–12 (para B26 on page 223). These growth rates are below the expected growth rate of the economy and, because of the Relative Price Effect, are likely to overstate the effective purchasing power of public-service providers.

3. There are two further background points. First, the 1998 public expenditure system has, unlike its predecessors, never been tested in years of (relative) famine. As for the past, it is impossible to prove whether the 1998 system contributed positively towards the long period of economic growth, or whether it was the economic growth that both allowed the system to hold and the remarkable rates of real public expenditure growth to be sustained over such a long period. Second, there is no consensus as to the quality of the additional spending, particularly whether improvements in public-service outputs have been commensurate with the additional resources. Notwithstanding all the performance indicators that have been another key feature of the post-1998 period, there are plenty of commentators prepared to claim, often on anecdotal grounds, that these additional resources have been squandered.

TRANSPARENCY OR OPAQUENESS

4. Over the past 10 years there has been an explosion of references to transparency, in terms of both claims by government to be transparent and demands that government and other public organisations should be transparent. One of the difficulties of interpreting developments is that this has been the age of “spin”, which has accentuated the decline in trust in government. This is also the age of formal evaluation, often externally conducted but sometimes framed in terms that might be described as “self-assessment with only positives mentioned”. “Fiscal transparency” is one of the five principles of fiscal management in the statutory Code for Fiscal Stability (Treasury, 1998). The Chancellor of the Exchequer and the Treasury like to portray the United Kingdom as leading the way on international best-practice in fiscal transparency. In reality, however, there are several systematic features of UK practice that damage this claim. The positive developments of which the Treasury can justifiably be proud92 are offset by undesirable practices. Obstacles to transparency do not only include a lack of openness about documentation and data, but can also be erected by overload, complexity, disorder and/or manipulative presentation (Heald, 2006).

91 This labelling by the Treasury is misleading as these are accruals figures; the point is that the figures have not been adjusted to take account of inflation.

92 For example: full implementation on schedule of Resource Accounting and Budgeting; the introduction in 2002 of both the End-of-Year Fiscal Report and the Long-term Public Finance Report; continuing improvements to the annual Public Expenditure: Statistical Analyses; and the development of an excellent website that greatly enhances document accessibility.
5. The following are examples of practices that scar the Treasury’s record on fiscal transparency, some of which may not originally have been intentionally obstructive:

— Announcing Spending Review settlements in July, at a time that precludes effective Parliamentary scrutiny.

— Leaking materials to favoured newspapers ahead of Pre-Budget, Budget and Spending Review announcements, some of which are authentic and some calculated to bring relief when the actual announcement differs.

— Overloading users and media by publishing a vast array of loosely connected reports and materials on the announcement day or just before, thus diverting attention from key fiscal numbers and making it difficult to find key material quickly.

— Adopting a rhetorical tone and propagandist style in parts of the Pre-Budget and Budget Reports that can descend into self-parody, almost as if some drafters are having a private joke at the Government’s expense.

— Making repeated changes to the dating of the current economic cycle in a way that has brought the golden rule into disrepute, so that commentators cynically expect the results to be manipulated.

— Maintaining ambiguity for 10 years about whether the 40% sustainable investment rule is a ceiling in each financial year or whether it must be met on some kind of average basis over the economic cycle as a whole.

— Undermining trust in government figures, with the effect that many people will not believe claims of, *inter alia*, efficiency savings, staffing reductions or service improvements.

The Early CSR2007 Documentation

6. The Treasury’s (2007, emphasis added) website still contains the following statement about CSR2007:

To lay the groundwork for the CSR, the Government is taking forward a programme of work involving:

— an examination of the key long-term trends and challenges that will shape the next decade— including demographic and socio-economic change, globalisation, climate and environmental change, global uncertainty and technological change;

— a national debate to build a shared understanding of how the UK and public services need to respond to these challenges (further details of the opportunities to participate in this debate will be set out in the coming months);

— detailed studies of key areas where cross-cutting, innovative policy responses are required to meet these long-term challenges;

— an ambitious and far-reaching value for money programme to release the resources needed to address the challenges, involving both further development of the efficiency areas developed in the Gershon review, and a set of zero-based reviews of departments’ baseline expenditure to assess its effectiveness in delivering the Government’s long-term objectives; and

— a more strategic approach to asset management and investment decisions, ensuring the UK is equipped with the infrastructure needed to support both public service delivery and the productivity and flexibility of the wider economy.

The promise of a “national debate to build a shared understanding” may have originally seemed useful compensation for the cancellation of SR2006. However, there is no sign of a national debate, not least because—after much vacillation—the Treasury published its first CSR preview document (Treasury 2006b) in the Parliamentary dead-time of July 2006. The second preview document (Treasury 2006c) came shortly before the 2006 Pre-Budget Report. In the meantime, certain departments made early CSR2007 settlements, and these were announced in the March 2006 Budget, and there have been others since. Even if there were a national debate, there is no mechanism for that to feed into decision-making on future spending priorities, especially when early settlers include the Home Office whose recent service-delivery and financial performance have attracted much criticism and public concern. Rumbling in the background—and sporadically flaring up in media interviews given, for example, by serving and recently retired military officers—is a great deal of traditional politicking about expenditure allocations. This may be fuelling a public mood that “the country is falling apart” and that the massive increases in public expenditure have

93 Chart 2.5 of the 2006 Pre-Budget Report (Treasury 2006b, page 32) suggests that the precise formulation may be important in the next economic cycle.
been wasted. A more measured debate is desperately needed, but currently looks unattainable. The Treasury Committee’s (2006) inquiry may come too late to affect substantive CSR2007 outcomes. However, valuable procedural gains for Parliamentary scrutiny of public expenditure would follow from adoption of the proposals made in the following paragraphs of this memorandum.

7. The two CSR preview documents (Treasury 2006b,c) contain much interesting contextual material but do not address how to prioritise public expenditure or how to manage it when the inevitable slowdown of real growth bites from 2008–09. The Foreword to Treasury (2006c, page 2), signed by Tony Blair and Gordon Brown, holds out the prospect of “an open discussion about future priorities”. However the gloss that this document places on expenditure outcomes over the period since 1997, where only positives are mentioned, has its converse in widespread media negativity about supposedly disintegrating public services that is influencing public perceptions. Although difficult for governments that have been in office for a long time, a realistic assessment of successes and failures is imperative.

WHAT PARLIAMENT SHOULD NOW ASK FOR

8. Parliament is entitled to more respect from the Government, and a good place to start would be with the Treasury’s relationship with the Treasury Committee. Here are some suggestions:

— The announcement of the publication dates of key fiscal documents well in advance, and dates only subsequently changed by Government if there is a genuinely compelling reason.

— Streamlined documentation which explicitly provides information that the Committee and other users actually want to receive, and which cuts out the hype and digressions.

— The programming of oral evidence sessions with Treasury officials and ministers well in advance, with sufficient time between publication day and the meeting with officials for the Committee to prepare.

— The avoidance of artificially compressed timetables that, together with the sheer volume of ancillary material, leave Treasury officials under-briefed for oral evidence sessions.

— The provision to the Committee on a monthly basis of a running tally of announced early CSR2007 department settlements, showing the numerical amounts in each financial year on a basis comparable to the latest Pre-Budget Report or Budget Report (or alternatively with reconciliations, for example if departmental structures have changed).

— A clear statement of exactly how the golden rule and sustainable investment rule will be formulated in the next economic cycle, with a commitment to transparent disclosure of the numerical impact of any reformulation later in the cycle.

— A Treasury announcement in July 2007 that SR2009 (assuming the return to a biennial timetable) will be published in May 2009, thus allowing time for serious Parliamentary consideration, in the first instance by select committees, but also on the floor of the House of Commons.

— Although the Treasury provides in the annual Public Expenditure: Statistical Analyses a 41-year time series of Total Managed Expenditure, the Departmental Expenditure Limit and Annually Managed Expenditure figures only cover eight years. This may be sufficient for the Treasury’s planning and control function but it is certainly not sufficient for users wishing to analyse, for example, public expenditure behaviour over the economic cycle or the public expenditure policy of a government that has won multiple terms of office.

— A thorough review of the role of the National Audit Office in auditing macroeconomic assumptions, which currently breaches the fundamental principle of auditing that the auditor, not the auditee, chooses what is audited and when.

94 There are two excellent current examples. First, in oral evidence on the 2006 Pre-Budget Report, Chote (2006, Q30) expressed concern that the Report did not contain an explicit statement that the Treasury had changed its forecast of the end-date of the current economic cycle. Second, the Treasury has consistently refused to publish in the Pre-Budget Report and Budget Report a comprehensive analysis of departmental savings under the Gershon efficiency programme. Bizarrely, given what else the Treasury publishes about departments, centralised publishing of efficiency savings is claimed not to be appropriate (Brivati, 2006). In consequence, the Treasury Committee has to prepare its own table based on the incomplete and not necessarily consistent data that can be extracted from departmental reports.

95 In the 2006 edition, these are: five outturn years starting in 2000-01; estimated outturn 2005–06; and two plan years ending in 2007–08 (Treasury, 2006a, Table 1.1, page 11).

96 My own view (Heald and McLeod, 2002) is that this is an entirely unsuitable role for the National Audit Office, which cannot match the macroeconomic expertise of the Treasury, is exposed to reputational damage and might have its relationship with Parliament compromised when made to share blame. There is something dangerously seductive about the term “auditing” that can bring false reassurance. “Although the NAO only edits certain forecasting assumptions, and not forecasting systems or methodology (para 505)”, this distinction might be lost in practice. However, if the role is to continue, it is imperative that the right to determine the timing and substance of this audit process is passed from the Treasury to the Comptroller and Auditor General.
9. What is achievable may fall short of what is desirable. Nevertheless, after a long period of an Executive made even more over-dominant by large Parliamentary majorities, Parliament must be ready to grasp whatever window of opportunity arises. Henke (2007) reported:

The chancellor, interviewed by Andrew Marr on the BBC TV’s AM programme, sketched out how he wants to change the way the country is run by giving more power to parliament and ordinary people and less to the state . . .

He envisaged constitutional change to give parliament a stronger role than existed under Mr Blair, arguing that new issues were emerging that required better parliamentary scrutiny. “We have got to look at the relationship as a whole between the executive, the law-making body which is parliament and the people themselves.”

There are uncertain days ahead for the Treasury itself. The default position in British government is that it is the dominant department. However, its power and effectiveness can be eroded if the Chancellor of the Exchequer does not carry weight in government and in Parliament. Since May 1993 the Treasury has reasserted its role within government, a process facilitated by two commanding Chancellors of the Exchequer. By addressing the issues raised in this memorandum, the Treasury might gain allies through persuasion and would promote effective fiscal transparency.

January 2007

REFERENCES

Letter from the Chief Secretary to the Treasury to the Committee

Thank you for your letter regarding the Committee’s inquiry into the 2007 Comprehensive Spending Review (CSR).

I regret that I am not able to provide the Committee with a copy of the Treasury’s draft Public Service Agreement (PSA) targets for the CSR period: all PSAs across government are still in the early stages of their development and remain the subject of discussion in the internally. However, I would be interested to hear the Committee’s thoughts on the Treasury’s PSAs when we meet on 30 January.

With that in mind, it might be helpful if I set out briefly how we propose to develop the performance management framework in the CSR. Building on the evolutionary reforms of consecutive Spending Reviews, we will set in the CSR a refreshed and smaller suite of “corporate” PSAs which articulate the Government’s highest priority outcomes for the period. By setting PSAs across government according to the key challenges we face, rather than solely on a department-by-department basis, we hope to encourage better-focused and coordinated action.
Alongside a smaller set of cross-government PSAs focused more tightly on the Government’s highest priority outcomes, the broader business of government will be covered by Departmental Strategic Objectives (DSOs). These will be defined in the CSR and, building on emerging findings from capability reviews, the CSR will ensure that they are effectively linked to the focused set of PSAs.

These changes to the performance management framework are designed to ensure that monitoring and reporting burdens across the public sector are proportionate, and to strengthen accountability for delivery (particularly where outcomes require coordinated action across departmental and other organisational boundaries). PSAs will be underpinned by a single, published, cross-departmental Delivery Agreement. These will clearly set out the level of ambition, the strategy for delivery and the role of each organisation involved in the PSA. In drawing up these agreements departments will consult front-line professionals, service users and broader stakeholders on the most effective ways to generate incentives for successful delivery. Although these consultations will be a matter for individual Secretaries of State, I anticipate that Select Committees will be central to this process.

I would of course be happy to share the Treasury’s DSOs with the Committee once they have reached a suitable stage in their development. In the meantime I look forward to hearing your views on our reforms to the performance management framework when we meet next Tuesday.

*January 2007*